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TORONTO, ONTARIO

THE ROYAL COMMISSION ON TAXATION

HEARINGS HELD IN THE COURT ROOM AT  
WHITEHORSE, YUKON TERRITORY,  
COMMENCING AT 2:30 P.M. on MONDAY,  
JULY 22nd, 1963.

BEFORE:

MR. KENNETH LeM. CARTER	Chairman
MR. J. HARVEY PERRY	Commissioner
MR. CHARLES E. S. WALLS	Commissioner
MR. G. BENNETT	Secretary





ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

I

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT WHITEHORSE, YUKON TERRITORY

July 22, 1963

TOPICAL INDEX

VOLUME No. 30

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a )	<u>INTRODUCTION:</u>	
	Opening remarks of the Chairman	4
( b )	<u>Submission: Of</u>	
	<u>The International Union of Mine, Mill &amp; Smelter Workers ( Canada)</u>	3
4	Business Income Taxation - General Concept of Business Income.	39, 40, 44
5	Business Income Taxation- Incentive Measures.	3I - 38
II	Business Income Taxation- Specific Industries.	6 - 15, 30, 3I
I9	Economic Growth	7 - 13, 15, 18, 27, 30 - 36
35	Personal Income Tax - Exemptions and Allowances.	6, 7, 14 - 17 2I-24, 26, 27 40 - 45
39	Personal Income Tax- Personal Savings and Investment.	28, 29
( c )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	4 - 18
	Nature of Organization, its functions, objects and purpose.	4,5, 19, 20
	Resources of the territory being developed, and undeveloped future resources.	8
	A point of reference to taxation structure being loaded against Smelters and refineries, secondary Industry, a quotation from paper produced by Mr. J.P.R. Wadsworth, President of The Canadian Imperial Bank of Commerce page 4 thereof as presented to Northern Development Conference, reciting reasons relative to the point.	12, 13
	A reference to Elliott Lake development	13



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TORONTO, ONTARIO

Whitehorse, Yukon Territory  
July 22, 1963

1 International Union of  
2 Mine, Mill & Smelter  
Workers ( Canada )

Volume No. 30

3	<u>Titles</u>	<u>Description</u>	<u>Page</u>
4	( c )	<u>SPECIFIC DISCUSSIONS ( continued )</u>	
5		A reference to discrimination between	
6		tax provision allowance for mining	
7		Companies and their management v/s	
8		the working force under extenuating	
9		circumstances, the inequities that	
10		prevails.	14 - 18
11		A question in reference to difference	
12		in wage scales between the two north	
13		territories, Yukon and Northwest, the	
14		reasons exemplified.	21, 22
15		A question as to what is meant by	
16		incentive pay? the explanation, basis of,	
17		and purpose when employed under various	
18		contractual agreements.	22
19		A point of reference to the used of the	
20		Isolated Post Regulation Re: Wage scales,	
21		some explanations of its application.	22 - 25
22		A reference and point raised relative	
23		to lists of Cost of Living comparisons	
24		referred to in page II of the brief.	24
25		A reference to page 17 paragraph 4 of	
26		the brief dealing with the subject of	
27		a tax concession v/s Isolated Post	
28		Allowance, a discussion and arguments	
29		in comparison.	24 - 26
30		A reference to suggested increased tax	
31		exemptions and tax holiday, the viewpoints	
32		and arguments in relation thereto.	26- 28
33		A point of reference to Pension Vesting	
34		and Plans, related to the Industry in	
35		the Territories under review.	28 - 30
36		A few questions in reference to extent	
37		of processing done in Canada, a general	
38		review of present operations, procedures,	
39		and future proposed expansions in the	
40		mining industry in the northern territory.	30, 31, 34 - 36
41		A point in reference to Canadian Tax	
42		Systems favouring foreign control of	
43		natural resources, the reasoning and	
44		exemplifications presented, and the	
45		arguments advanced.	31 - 33, 36, 37
46		A reference to The Paley Report on the	
47		resources of the United States, the	
48		necessity of obtaining raw materials	
49		from outside sources, a point of tax	
50		relief as an inducement to establish	
51		and build plants in the Canadian North	
52		territories to produce the finished	
53		product.	36 - 38



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Whitehorse, Yukon Territory  
July 22, 1963

III

International Union of  
Mine, Mill & Smelter  
Workers ( Canada)

Volume No. 30

<u>Titles</u>	<u>Description</u>	<u>Page</u>
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( c ) SPECIFIC DISCUSSIONS ( continued )

A few questions raised with regard to the individual, that taxation ought to start on the amount he receives in excess of the ordinary standards for health and decency. 40 - 45

Closing remarks of the Chairman 45, 46

Addendum

Reference additional representation contained in Volume No. 31 at Hearings held at Yellowknife, N.W.T. on July 25, 1963 pages II8, II9, I20 relative to above participant.

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
95	<u>The Yukon Territorial Council</u> Certified True Copy of motion # 4 Re: Federal Taxation Regulations dated November 26, 1962	2
96	Letter dated June 4, 1963 from Mr. H.J. Taylor, Clerk of The Yukon Council, to the Chairman	3
97	Submission by The International Union of Mine, Mill & Smelter Workers ( Canada)	3



1 THE CHAIRMAN: Mr. Secretary, I think we might  
2 put this session to work. Do you have anything to say  
3 to us before we start?

4 THE SECRETARY: Indeed I have, Mr. Chairman.  
5 I think it is most fitting while we are here in the  
6 capitol of The Yukon Territory to take the opportunity  
7 to read into the record two resolutions from The Yukon  
8 Territorial Council.

9 When I arrived here Mr. Taylor, the Clerk of  
10 the Council, gave me a certified copy of a resolution  
11 which had been passed last year in November of 1962.  
12 Then, as you know, we received in our office in Ottawa  
13 on June 4th of this year a further resolution.

14 I would like to read these resolutions into  
15 the record, Mr. Chairman, with your permission.

16 THE CHAIRMAN: By all means.

17 THE SECRETARY: This is a certified true copy of  
18 Motion #4, Re: Federal Taxation Regulations, dated  
19 November 26th, 1962; moved by Mr. G. O. Shaw and seconded  
20 by Mr. R. McKamey.

21 ---Motion #4 read into record.

22 I would like to enter this document into the  
23 record as Exhibit Number 95.

24 EXHIBIT Number 95: Certified true copy of  
25 Motion #4, Re: Federal  
26 Taxation Regulations, dated  
November 26th, 1962.

27 THE CHAIRMAN: Thank you, Mr. Secretary. The  
28 other is a separate Exhibit?

29 THE SECRETARY: It is, Mr. Chairman. On June  
30 4th, 1963, a letter was sent to you, Mr. Chairman, from



1 Mr. Taylor, Territorial Secretary, and this is the letter:

2  
3 --- Letter dated June 4th, 1963, read into record.

4 Mr. Chairman, I would like to enter this  
5 original letter into the records as Exhibit Number 96.

6 EXHIBIT NUMBER 96: Letter dated June 4th, 1963,  
7 from Mr. H. J. Taylor, Clerk  
8 of The Yukon Council, to The  
9 Chairman.

10 THE CHAIRMAN: Thank you, Mr. Secretary. Now  
11 we have some participants before us today. Would you  
12 proceed to introduce them?

13 THE SECRETARY: Mr. Chairman, we have received a  
14 brief from The International Union of Mine, Mill and  
15 Smelter Workers (Canada), which is to be presented to us  
16 here in this capitol.

17 Mr. H. Murphy, who is National Vice-President of  
18 the Union, will speak to the brief. Mr. Murphy is here  
19 this afternoon and he will introduce the other officers  
20 of the Union who are with him.

21 I would like to enter this brief into the records  
22 as Exhibit Number 97.

23 Submission

24 by

25 The International Union

26 of

27 Mine, Mill & Smelter Workers (Canada)

28 A P P E A R A N C E S:

29 Mr. H. Murphy International Vice-President, Vancouver  
30 Mr. W. Berezowski National Organizer, Edmonton  
Mr. R. Stevenson National Publicity Director, Toronto.



1 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
2 day, Mr. Murphy. Before you introduce your visitors to  
3 us I would introduce the Commission to you. I might  
4 say that we are delighted to be in the Yukon. For all  
5 of us this is the first time. We would not have been  
6 here but for you and we thank you for that particularly.  
7 We are looking forward to discussing your submission  
8 with you. We have all read it and it does not need to  
9 be read into the record. We would be delighted if you  
10 would care to speak to it or amplify it or summarize  
11 it.

12 First of all, would you introduce your  
13 associates?

14 MR. MURPHY: Thank you, Mr. Chairman, and  
15 Members of the Commission.

16 I wish to introduce Mr. Stevenson of Toronto,  
17 who is Publicity Director; our National Organizer, Mr.  
18 Berezowski; a member of our Executive, Mr. Mills; Mrs.  
19 Hanley from Cassiar Asbestos; Mr. Backmeyer, one of the  
20 truck drivers with Yukon Transportation; Mr. Hanley from  
21 Cassiar; the Secretary of our Local at Keno Hill; Mr.  
22 Lee Carter, one of the transport men.

23 Mr. Chairman and Members of the Commission, I  
24 also appreciate the fact that this Commission travelled  
25 to the far North, the Yukon.

26 I am quite sure that in the future we in Canada  
27 will hear a lot more and depend a lot more upon the  
28 resources of this greathNorth.

29 The Organization is a National Organization of  
30 miners and smelter men. As a National Organization



1 established throughout Canada we ourselves are seized  
2 with the importance of drawing attention to the conditions  
3 in the North and to present to your Commission our  
4 thinking and views with regards to the situation  
5 prevailing here and in Yellowknife and the district that  
6 is being developed right around the Arctic Circle.

7           There is too much romantic talk about 1898 and  
8 people are liable to forget that Robert Service and his  
9 fine stories of the north while they are very good  
10 reading represent a different period and that the north  
11 is one of the great storehouses of Canadian wealth and  
12 it has not been taken out in the pokes of the miners who  
13 came up here first.

14           Now our Organization has some general views with  
15 regards to the mining industry as such and we are part of  
16 that industry, we have collective bargaining agreements  
17 with various Companies throughout Canada and we are  
18 vitally concerned with what is taking place, particularly  
19 in the future.

20           We have some general statements on that and some  
21 proposals that we are submitting to your Commission. As  
22 the major labour organization in the north we have made  
23 many representations to Ottawa and to the Government of  
24 the Territories with regard to social legislation, labour  
25 legislation, and above all the efforts we are making to  
26 remove discrimination that is being suffered today by  
27 the people here who have to work here and want to establish  
28 their homes.

29           They are up against a real situation. We  
30 developed this in our brief through actual figures of the



1 cost of living, the cost of transportation, the  
2 difficulty of establishing housing, and the special  
3 discrimination suffered by the people in the North.

4 We have great hopes that the native population  
5 will be drawn into industry and that it is moving away  
6 from the semi-primitive conditions and moving forward  
7 into industry and industry can be developed.

8 Ours is a submission along the lines of the  
9 resolutions of the Yukon Territorial Council. Recently  
10 Mr. Eric Neilson, the Member of Parliament from this  
11 area, raised this question in the House, dealing with  
12 the budget....I am satisfied with the terms of reference  
13 of this Commission. I am referring to that reference:  
14 The means whereby the tax laws can best be promulgated  
15 to encourage Canadian ownership of industry without  
16 discouraging the flow of investment funds into Canada.

17 I would also refer to the remarks made by  
18 Mr. Bell in dealing with the structural deficiencies  
19 of the whole of the Federal Tax structure to make  
20 recommendations for changes designed to remedy these  
21 faults and the wide territory that is mapped out for this  
22 Commission in dealing with taxation and how taxation  
23 policies can be used to develop the future of this  
24 industry.

25 You will have submissions from the Mining  
26 Associations, from the Canadian Labour Congress, from  
27 various organizations that are concerned. I know in  
28 dealing with the problems that we face I can speak from  
29 actual experience. It is not only just coming into  
30 Whitehorse or Yellowknife for a few days and observing



1 conditions but it is actual experience of the past  
2 twenty years meeting with management, working on  
3 collective agreements and trying to establish conditions  
4 whereby we can provide for the working man who comes  
5 here to work.

6 It is our aim to establish homes and remove  
7 the curse of this industry, transient labour, and the  
8 high cost of transportation. We have to find the ways  
9 whereby men can establish homes and bring their families  
10 here and develop families.

11 As our brief points out the Federal Government  
12 has provided the civil servants working for the  
13 Government with a special northern allowance covering  
14 housing, covering transportation, isolation, and so on.  
15 That means in many cases more than is paid in wages to  
16 the local civilian truckers who are not working in the  
17 public service but working for private employers.

18 We have studied ways and means of bringing about  
19 some recognition of their special conditions and that  
20 is why we have proposed there should be an income tax  
21 allowance as one means of doing this so that the men will  
22 stay here and have a future to look forward to.

23 Now recently there was a Northern Development  
24 Conference that was largely attended, called by The  
25 Board of Trade, and present were labour representatives,  
26 representatives of various Companies, Mr. Norman  
27 Robertson, who is the Deputy Minister of Northern Affairs,  
28 and banking interests.

29 At this conference we had engineers and  
30 prospectors paint a picture and produce papers to show the



1 tremendous resources that are up here that are not  
2 being developed, the tremendous oil deposits, the  
3 tremendous iron ore developments. We know from our own  
4 experience in the mines that are producing silver and  
5 other base metals that there are others that can be  
6 established here. There are the great asbestos deposits  
7 that are being mined just along the border here in  
8 Cassiar.

9 We have found that the one thing that is holding  
10 the whole country back from development is the refusal  
11 to fabricate and smelt and refine these ores and the high  
12 cost of moving them to smelters and refineries.

13 I would just point out this: The tremendous  
14 Cassiar deposits are mined at Cassiar. They are milled  
15 there in their raw state; they are trucked to Watson Lake,  
16 very expensive haulage; they are loaded on the Skagway  
17 Railway and travel right around the Panama Canal and are  
18 fabricated in Pennsylvania. Naturally only the richest  
19 and best fibres are sent because of the high cost of  
20 movement. Yet these fibres can compete! Now just imagine  
21 if these fibres were fabricated here in Whitehorse or in  
22 this area. Instead of it being largely a seasonal  
23 operation it could be a source of employment for a large  
24 number of the youth and women who are not adaptable to  
25 mining but who have to live in the Territory. That is  
26 just one example.

27 Now dealing with this industry, the mining  
28 industry, I would speak with my knowledge that as long as  
29 it awaits this country will be held back because all  
30 these ore bodies being blocked out and staked are being



1 held in reserve until they can be used by some foreign  
2 country. It is dependent on Japanese industry or the  
3 United States.

4 In our brief we devote considerable attention  
5 to this question and, Mr. Chairman and Members of the  
6 Board, this Union had this problem several times in the  
7 last twenty years. Take, for instance, our proposal  
8 submitted to the Government with regard to gold when  
9 the price of gold became fixed by the United States at  
10 \$35.00 an ounce and gold mines were going out of  
11 existence, or continued in existence and only mined high  
12 grade and were leaving the rest under ground. We made  
13 representations at that time to the Government. Whole  
14 towns like Kirkland Lake and Timmins were affected. We  
15 have a couple of gold mines left in British Columbia in  
16 this Western country. The Government of Canada saw fit  
17 to save the communities with ten or twelve million  
18 dollars a year as subsidies to this gold mining industry.

19 Now along the same lines and dealing with this  
20 industry, because it is largely foreign owned and they  
21 don't have a stake in the country and because they do own  
22 other fabricating plants in the United States, the policies  
23 that we are up against as an industry are quite enormous  
24 with them encouraging export from Canada of concentrates  
25 and putting extra tariffs and obstacles on the importation  
26 from the United States of the refined lead, zinc, and  
27 sulphur. Their policy is geared to have the very  
28 opposite effect to Canada's.

29 Now as our brief points out Canada makes a very  
30 generous allowance for depletion, a free three year tax



1 period, but does not specify any measure of fabrication  
2 or refining or smelting and naturally that works to the  
3 detriment of this country's future development and its  
4 industrial development.

5 In dealing with this question in our brief we  
6 have put forward policies that the Government of Canada  
7 could use with regard to taxation, which should be a  
8 mission to develop Canadian independence and not  
9 dependence upon foreign industry.

10 Today we are developing big open pit mines on  
11 the west coast of Vancouver Island and British Columbia  
12 and here and the ships come right up and load right from  
13 the mine in concentrate form iron ore, copper, lead, and  
14 zinc and ship directly to Japan.

15 Let me just read you the figures from the  
16 report made by the mining association to a meeting of  
17 the mining representatives. He states that in 1952  
18 8,094 men in the mines plus 1,516 men employed at  
19 concentrators produced principal metals (gold, silver,  
20 copper, lead and zinc) valued at \$134,606,323. In 1960  
21 3,741 men in the mines and 648 men in the concentrators  
22 produced principal metals valued at \$112,843,187.  
23 The value of production per man employed 1902 was in the  
24 order of \$3,600 per annum. The value of production per  
25 man employed in 1952 was in the order of \$14,000. per annum.  
26 The value of production per man employed in 1960 was in  
27 the order of \$26,000. per annum.

28 Now with these open pits I would not be far off  
29 in stating to you that per man employed in these  
30 industries we are producing about \$40,000. a year in value.



1 Now we are producers. I don't need to tell  
2 you about the balance of payments and the difficulties  
3 we have in regards to the United States and paying for  
4 our imports. We are one Union that could produce  
5 another one hundred million dollars in acceptable  
6 currency to the United States. If the subsidy to the  
7 gold mines is correct, eleven or twelve million dollars  
8 put out by the Federal Government, what would it matter  
9 if we put out another twenty-five million and produced  
10 another one hundred million or one hundred and fifty  
11 million dollars? What we spend internally in the country  
12 is not any big problem, it is what we import and our  
13 balance of payments is causing the difficulties.

14 Now in the same light I would say with regards  
15 to Governmental policies with regard to taxation can it  
16 be left to private industry when it has not got an  
17 interest in developing Canadian smelters and refineries  
18 or fabricating? The United States makes it very easy  
19 for us to import concentrates but makes it much more  
20 difficult to import refined metals.

21 Our Union is an International Union and some  
22 of these things that we come up against are in conflict.  
23 I can understand my Brothers in the United States  
24 demanding tariffs. The mills and smelters down there are  
25 dependent upon foreign imports to keep going. We have  
26 distinct Canadian interests and that is why we have  
27 spent so much time in outlining the position of the  
28 Union as an autonomous Canadian Union that can make  
29 decisions for the membership and for the interests of  
30 Canada.



1           We watched the development of mines in South  
2 America and it has been largely developed by Government  
3 capital, by the United States through various so-called  
4 Marshall plans. It has taken millions of dollars to  
5 develop the mining industry in Chile and Mexico and so  
6 on. They put barriers against that production coming  
7 into the United States but the same production goes into  
8 the markets of the world and beats Canada. It is  
9 largely financed by the United States Government. There  
10 are advances made to Anaconda and other large mining  
11 companies. These policies are being pursued.

12           Our taxation structure is loaded against  
13 smelters and refineries, secondary industry. Why should  
14 it be?

15           I would like to point this out...At this  
16 Northern development conference we had a paper produced  
17 by Mr. J. P. R. Wadsworth, Vice-President and General  
18 Manager of Canadian Imperial Bank of Commerce. He spoke  
19 very plainly as to the reason. I wish to quote from page  
20 four of this paper....I understand since that time he  
21 was made President. I don't know whether this speech had  
22 its effects! He is dealing with this industry in the  
23 north and he points out:

24           " It is important that there be long-term  
25 commitments in connection with the properties to be  
26 developed and such commitments ought to be on a  
27 basis not likely to be altered by the legislation  
28 of successive governments. In other words, to  
29 encourage the flow of funds to the Far North to  
30 develop resources, firm assurance is needed that



1           favourable conditions for the development of  
2           large bodies of raw materials will be provided,  
3           will continue to exist and will not be amended  
4           or altered by taxation or other measures in the  
5           foreseeable future."

6           Now that is quite a condition and in order to  
7           get The Canadian Imperial Bank of Commerce to invest  
8           in here they have to have assurances I don't believe any  
9           Government can give them. They must guarantee them and  
10          they will not be altered by legislation in the future.  
11          Under such conditions there won't be much capital coming  
12          in here to develop the great potential of this north  
13          country.

14          Now I should not, as a representative of this  
15          Union, in any way object to the fact that mines have been  
16          opened up and provide employment to our members but we  
17          have got no future because this can change according to  
18          policies made outside this country, that is if a  
19          settlement ever comes in the Far East and they can obtain  
20          iron and copper closer to home. We are dependent upon  
21          the status quo being maintained. These mines could become  
22          useless and our jobs would be gone and the communities  
23          built around the mines would be gone.

24          I had quite a bit to do in Elliott Lake. I was  
25          there when it first opened up. Mr. Stevenson here was  
26          there. It was just bush and a modern city was built and  
27          fifteen thousand men brought in. There was a wonderful  
28          modern housing development, really something to see.  
29          We lived in the bunk houses and tents and went through the  
30          mud and finally became built up and the orders ceased.



1 We were dependent upon an order made in the United  
2 States. The speculators and debentures were all  
3 guaranteed against loss. Even today the orders are  
4 spread out and they are guaranteed. There were quite  
5 a few millionaires made as a result of it but the poor  
6 workingman that came in and took the risk in the new  
7 development, his savings went into the homes and  
8 furniture and it was closed up.

9 I had the personal experience of being in  
10 Uranium City and I watched when several Union mines  
11 shut up there. They shut up in the winter or spring  
12 and air transport was the only way in and out. You  
13 would see homes fully furnished and when the river  
14 opened up they just turned the keys and hundreds of  
15 miners left.

16 In this connection our brief spends considerable  
17 time on risks to the mining companies. There are  
18 provisions made to guarantee their capital. They speak  
19 a lot of risk but they have a three year tax free  
20 operation and then afterwards depletion allowance, costs  
21 for development and all that. They get a taxation  
22 allowance. The fact is it gripes us - the manager lives  
23 in his house up there, with his cost of production  
24 covered by income tax - the manager's house, the staff  
25 houses that house their crew, but we build a shack there  
26 and we get no tax allowance and our wages are taxed  
27 like anybody else's in Canada. What fairness is there  
28 in that?

29 The workers now buy cars because there is no  
30 transportation. The manager's car is a cost of



1 production. In fact if he meets us down here and buys  
2 a bottle of whiskey that will be in his expense account,  
3 not in mine. I should like something to be done about  
4 this situation.

5 I will read you a report from The Northern  
6 Miner:

7 "\$2.5 Million Windfall for Mining Cos.

8 Canadian mining companies, it appears,  
9 will be on the receiving end of a \$2,500,000  
10 rebate in sales taxes that they have already  
11 paid on purchases of rock bolts used to support  
12 loose rock in the roof of mine workings. This  
13 welcome windfall comes as a result of a  
14 decision handed down by the Exchequer Court last  
15 week that rock bolts are a safety device and  
16 therefore not subject to sales tax. The  
17 Government has 30 days in which to enter an  
18 appeal if it so desires."

19 Our miners who work have to buy their own safety  
20 shoes and hats and belts. We get no allowance for them  
21 and it is a condition of employment in order for us to  
22 live. We cannot include that in our income tax and our  
23 wages are taxed like all workers elsewhere.

24 I am dealing with the particular item in the  
25 north and as it affects our members and affects all  
26 those that come in the future. We need an incentive for  
27 men to come in because, Mr. Chairman and members of the  
28 Commission, this is a great wealth-producing industry and  
29 for every man that works in the mine we are producing  
30 revenue and wealth for the country.



1 I have dealt with this question of taxation  
2 as it affects our membership. On what basis should  
3 wages be taxed? There is no criterion. You must take  
4 into account safety clothing, transportation, housing,  
5 and special conditions. It is one thing to tax a man's  
6 surpluses and another thing to tax a man's profit.  
7 I would like to see some intervention by a Governmental  
8 body that will establish the amount necessary to live in  
9 health and decency for an average family in Canada  
10 and over and above that there be taxation. Why should  
11 a man be taxed or a family taxed if the income is less  
12 than is able to provide ordinary standards of health and  
13 decency?

14 Certainly it is not based on the present cost of  
15 living allowance. That is where the inspectors go from  
16 house to house and take a cross-section of the people  
17 and ask them what they buy. It stands to reason...You  
18 buy according to the means you have.

19 This income tax should be based on some standard.  
20 Now is anybody going to say that two thousand dollars is  
21 enough or twenty-five hundred dollars for a family as the  
22 standard which it is allowed and a percentage above that?

23 I am on salary and I work year-round. My wages  
24 in this Union are based upon work in industry. I have an  
25 average family of three living at home and I get \$6,300.  
26 a year before taxes and I know how difficult it is.

27 You take the average wages in this industry,  
28 even where we work steady and have part of our Union  
29 that is employed in the Company on year-round work, for  
30 the last twenty years the average wage is the



1 highest paid in the industry, about \$4,500. Nobody is  
2 too high on that.

3 Recently I was on a visit to Scotland to the  
4 Scottish Mining Industry, because of my experience in  
5 the coal mines in Canada. I saw developments there.  
6 The coal mining industry is generally in a crisis around  
7 the world. The Government of Britain has taken over  
8 the mines and shut down hundreds of uneconomic operations,  
9 the small ones. There was heavy capital required for one  
10 mine to build up while hundreds are shut down. It meant  
11 an investment of nineteen million pounds and what  
12 private interest is going to do that? Yet Britain needs  
13 that coal industry. It is a heavy importer of fuel and  
14 they can use coal to develop electricity. This is the  
15 first year the Coal Board has reported a profit and the  
16 price of coal is actually going down.

17 Our coal mining industry has gone out and we  
18 have the ridiculous situation in Western Canada where  
19 it is dependent on Governmental subsidies. Would you  
20 believe it, gentlemen, that it costs about \$14. in  
21 subsidy to ship a ton of coal from the Crow's Nest Pass  
22 to Japan. If that makes sense I will eat it!

23 So in the outlook of this industry I think our  
24 brief sets it out to the extent it can. We are not  
25 professionals. It is our first experience in dealing  
26 with taxation. My father is a worker in industry and  
27 never bothered about income taxes. It is a phenomenon  
28 that is new where the worker today plays quite a role.  
29 It is also a means whereby the Governmental intervention  
30 is necessary and can be used.



1 This country will not be developed without the  
2 direct intervention by the Government of Canada and it  
3 will be necessary to produce future revenue and remove  
4 the heavy expenses of social assistance up here. I  
5 think if you would look through this Welfare Department  
6 here you would find a high percentage of deserted wives.  
7 There is a load of taxation because of social assistance.  
8 There are single men coming in who cannot establish  
9 homes because of the discrimination which exists with  
10 regard to the cost of living. This is a small item in  
11 our lives...Imagine paying sixty cents for a bottle of  
12 beer? Here is one little item. Can you imagine a  
13 Territory like this, with all this tremendous wealth to  
14 be developed, and one-third of its income is from the  
15 sale of liquor?

16 This is our glorious North and what a feeling  
17 it must present to the people here when this situation  
18 prevails. We know that industry in Canada needs these  
19 tremendous resources. There is not anything to equal it  
20 in the world. There is not any place in this continent  
21 that can match what we have in this country.

22 The United States published the Paley Commission  
23 Report and it pointed out the future when these resources  
24 are worked out in the United States, when the Mesaba  
25 Range goes, when the lead and zinc in the Tristate goes.  
26 We are sitting on the shelf until somebody can use us.

27 I won't add anything more at this time. My notes  
28 explain some of the propositions that are embodied in our  
29 brief. I hope they receive your due consideration.

30 Thank you very much.



1 THE CHAIRMAN: You have been very interesting  
2 indeed, Mr. Murphy, and I am certainly glad that your  
3 father's son decided to take an interest in taxation.  
4 You are extremely helpful to us.

5 We have a few questions to address to you but  
6 before doing so I wish you would tell us a little more  
7 about your Union. You are a National Union and you are  
8 interested in the mining industry in all of Canada. You  
9 speak of Timmins and Sudbury and so on. You appear  
10 before us here because of your particular interest in  
11 the mining of the North. Is that correct?

12 MR. MURPHY: Yes.

13 THE CHAIRMAN: Roughly what size is your Union?  
14 How many members would you have? You are a Union that  
15 generally represents Canadian miners, I think.

16 MR. MURPHY: Our Union is one of the oldest.  
17 The Western Federation of Miners developed in Western  
18 Canada and the United States. We organized the big mines.  
19 International Nickel is still in dispute with some other  
20 outfit that is trying to take it away from us!  
21 Throughout the West we are organizing all these mines out  
22 here. The last figure was about thirty-two thousand  
23 workers. The smelters in the mines are a special  
24 jurisdiction.

25 Now we are one of the few Unions in Canada that  
26 established a Canadian autonomy. We come into direct  
27 conflict in policy, say, with Unions outside in the United  
28 States and with our own members because of certain conflict  
29 in national interests, although that was not the main  
30 reason we made different submissions.



1           They would project tariffs against refined lead  
2 and zinc and we, of course, opposed it looking at the  
3 national interest of the country. We established a  
4 Canadian autonomy so we were not subject to the  
5 International Executive Board and we elected our officers  
6 in Canada from the Canadian membership and we have a  
7 Canadian constitution. I think we have a copy here with  
8 the Commission. The constitution sets out very clearly  
9 that on no matter affecting Canada can the American  
10 Executive Board intervene. We are complete masters in  
11 our own home. That is one of the reasons why there is  
12 such conflict at the present time. We have deplored the  
13 fact that Canada is the one country in the world that has  
14 not got a trade union movement and can meet with the  
15 others on a basis of equity.

16           I might state in this connection that I learned  
17 when I was in Scotland at the Scottish Miners' Convention  
18 that although they are part of the United Kingdom under  
19 a National Coal Board the workers in Scotland have  
20 complete autonomy in their own Union. The same goes for  
21 the miners in Wales. They don't have to take any  
22 instructions from abroad and that is one characteristic  
23 of their Union. That is why I think we can make a  
24 presentation that might be in conflict with those across  
25 the line.

26           THE CHAIRMAN: Thank you.

27           COMMISSIONER WALLS: Mr. Murphy, I have a few  
28 questions I would like to put to you mostly dealing with  
29 the position of your members, the individual miners,  
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28 questions I would like to put to you mostly dealing with  
29 the position of your members, the individual miners,  
30



1 rather than dealing with the section of the brief  
2 dealing with the Companies.

3 The first thing that interests me is on page  
4 8 where you give various scales of wages. I note there  
5 is quite a divergence in rates between the two  
6 Territories, the Yukon Territories and the Northwest  
7 Territories.

8 If your Union negotiates in both areas, and on  
9 your page dealing with the cost of living they are  
10 comparable, why do you negotiate a lower wage scale  
11 generally in one Territory than the other?

12 MR. MURPHY: That is a very good question.  
13 Our Union is based on autonomy in each Local Union. We  
14 are not mining one metal or the conditions of one metal.  
15 For instance, lead and zinc will be booming and we have a  
16 better bargaining position there, while at the same time  
17 in a gold mine the price of the metal is fixed and we  
18 have towns around there and these employers would not mind  
19 us going on strike, nor would our men vote to go because  
20 they will shut down the gold mine.

21 Now there is also the area where we are in a  
22 position to bargain in British Columbia. Say it is  
23 Government supervised but each certification has to take  
24 its own vote and agree to the conditions prevailing in  
25 that area. The Union is in no position to call a strike.

26 We have strikes going on now but we have not  
27 reached a standard wage because there are different  
28 methods and different prevailing methods in each  
29 locality.

30 Up here the hours of work are not regulated.



1 You will find a man working seven days a week and the  
2 seventh day will be time and a half and for us to cut  
3 down the hours to raise wages is impossible. There is  
4 no social life, there is no community life, just bunk  
5 houses and men. Some of these workers will work forty-  
6 eight hours and depend on overtime to make it up.

7 COMMISSIONER WALLS: What is meant by incentive  
8 pay?

9 MR. MURPHY: That is contract earnings...Certain  
10 miners working on piece work underground get paid accord-  
11 ing to the yardage or tonnage produced if they get into  
12 good working places. It is something used to get more  
13 production.

14 COMMISSIONER WALLS: I notice in your contracts  
15 most of them contain bonus clauses.

16 MR. MURPHY: That is for the miners. That would  
17 constitute one-third force.

18 COMMISSIONER WALLS: In making this comparison  
19 with the Isolated Post Regulations of the Civil Service  
20 I notice that the average wage in the mines is five  
21 dollars a week higher than the Canadian average and you  
22 have additional benefit clauses.

23 Is it not a fact that when you negotiate with  
24 your employers in this country you use the Isolated Post  
25 Regulation as a means of getting a higher wage scale?

26 MR. MURPHY: No, it has to be competitive with  
27 the rest of the mining industry no matter where it is  
28 located. We have raised this question several times in  
29 bargaining and they say if they produce lead cheaper in  
30 another place and their costs of production are



1 higher here and so forth...We haven't been able to use  
2 it nor has any other Union been able to use that  
3 argument.

4 COMMISSIONER WALLS: A single man in Whitehorse  
5 under the Isolated Post Regulation receives about  
6 \$700. more. That is counting everything. With your  
7 higher wage over and above the Canadian average,  
8 plus the bonus clauses and other allowances would you not  
9 come fairly close to that?

10 MR. MURPHY: Far from it. Mr. Chairman, I  
11 think the question here can be proven mine by mine.  
12 Where it goes above the Canadian average it is because  
13 of longer hours. I can produce agreements from down  
14 south, what we call "south", our miners in Kimberly  
15 receive \$2.47½ an hour and up here it is about \$2.05.  
16 They have a bonus down there. That is the one we get  
17 miners underground. It is heavy, dangerous work and the  
18 life expectancy is less. I can produce to you the  
19 agreements, which are the results of our negotiations.  
20 Where it comes up here in the north it is because of  
21 longer hours.

22 They won't take into account the fact you  
23 establish a home and you have to send your children out  
24 to University and for dental care and special medical  
25 services. We have established in our agreements one big  
26 concession for the north and that is annual vacations  
27 and travelling allowance after so many shifts to stop  
28 them getting bushed, and it is easy to get bushed.

29 Mr. Stevenson says you don't know what it means  
30 to be bushed.



1 COMMISSIONER PERRY: You can get bushed living  
2 in Toronto.

3 MR. MURPHY: I know from practical experience.  
4 That is why we are treating it as an income tax measure.  
5 Suppose I ask for a wage increase of a couple of thousand  
6 dollars to bring it equal with the Civil Service, those  
7 who are working for the Government as carpenters or  
8 electricians. That applies in Yellowknife. You have the  
9 situation of one dollar difference an hour between men  
10 working for the Government and the others. The  
11 Government would have great difficulties bringing civil  
12 servants up here without that, yet the girls who come out  
13 here and work in the stores get \$1.00 or \$1.05 an hour.  
14 You work seven days a week underground and you are going  
15 to take time off anyways.

16 COMMISSIONER WALLS: I am fully conscious of  
17 the difference in the cost of living but I would like to  
18 know if the lists of cost of living comparisons that you  
19 have on page 11 of the brief were all collected from  
20 the various points at the same time?

21 The reason I ask is the price of basic food  
22 stuffs is quite inconsistent between Whitehorse and Dawson  
23 City. On some basic commodities it is higher one place  
24 than the other. There is no tie-in on transportation.

25 You speak about a tax concession to make up for  
26 this Isolated Post Allowance. On page 17, paragraph 4,  
27 you say:

28 "From the point of view of Administration, no  
29 serious difficulty should be encountered. Lines of  
30 demarcation can be patterned upon those established



1 in the Isolated Posts Regulations. We know of  
2 no fairer way of establishing a northern subsidy."

3 At one time this Isolated Post Allowance applied  
4 north of the 55th parallel. Today it applies to all of  
5 Canada. Every place in Canada is now categorized on a  
6 point system and allowance is given for points over a  
7 certain minimum.

8 I am concerned with your suggestion that there  
9 should be a tax allowance to compensate for the Isolated  
10 Post Allowance in the Northwest Territories and the  
11 Yukon Territory. You cannot do that and be fair to the  
12 other parts of Canada. By this point system should'nt  
13 they also have to have this allowance. If not, are you  
14 not going to create another inequity?

15 MR. MURPHY: My understanding is it applies  
16 to all areas and you have a different point system as  
17 they develop. This country has got to expand and  
18 attract families. The most unstable element is the  
19 turn-over of labour, the men that cannot establish  
20 homes here. From every point of view to have a  
21 transient population is a costly item. Everybody in  
22 Canada will have the opportunity to come and get this  
23 benefit.

24 COMMISSIONER WALLS: You don't mean it should  
25 be applied only to the two Territories. You mean every  
26 place that there is an Isolated Post Allowance should  
27 receive this benefit?

28 MR. MURPHY: That is so. It is done in the  
29  
30



1 northern parts of British Columbia, Saskatchewan, and  
2 Alberta. I don't think the costs to the Canadian people  
3 would be so great. At this time it does not involve many  
4 people. The fact is they don't get the services here.  
5 We still pay taxes for the CBC and never see it...I  
6 don't know whether that is good or not !

7 COMMISSIONER WALLS: You fee that the metal  
8 workers in the Territories should have the following  
9 increased tax exemptions: First of all, you are asking  
10 for additional individual exemption of \$2,000. As I  
11 understand it you are also asking for additional exemption  
12 for wives of another \$2,000. and an increase on young  
13 children from \$250. to \$500. Then you are asking for  
14 a three year tax holiday.

15 It is this three year tax holiday that  
16 inveigles me. Supposing you are working up here for  
17 three years and receive the three year tax holiday and  
18 then leave here for a year and go out and then you come  
19 back again. Are you going to start another three year  
20 tax holiday and go on until you are paying tax only  
21 one year in four for most of your life?

22 MR. MURPHY: I expect the Government will have  
23 regulations to prevent any man chiselling and if there  
24 are loopholes they will block them.

25 COMMISSIONER WALLS: Our policy is to try and  
26 evolve a system that won't require plugging of loopholes.

27 MR. MURPHY: The fact is we are part of an  
28 industry that the Government is heavily subsidizing with  
29 a three year tax exemption period. I don't object to  
30 this allowance. In some parts it may appear that we are



1 antagonistic to our own industry. I am saying the thing  
2 that is wrong with it is it is not encouraging  
3 fabrication. Just think how much more taxes the  
4 Government of Canada would have if those exemptions were  
5 restricted to ingot production, not just to keep something  
6 else going. It would collect wage taxes. By and large  
7 this is a great wealth producer.

8 COMMISSIONER WALLS: You are asking for so many  
9 tax concessions I don't know where one stops and another  
10 starts. You are also asking that investments in homes  
11 should be given the same three year tax exemption. Does  
12 this mean deduction from income tax of the amount annually  
13 invested in a home purchase or do you mean relief of  
14 property taxes for three years? What do you mean by that  
15 paragraph?

16 MR. MURPHY: I would refer to the worker who  
17 is getting his wages and he is already taxed and he is  
18 building a home in this area. If he lived in the Company  
19 bunkhouses he would pay rent to the Company but the  
20 Company does not pay taxes on the amount of money invested  
21 in the bunkhouses. It is a cost of production. It is  
22 only when they make a profit they are taxed. In the  
23 first three years no Company property is taxed but we are.  
24 Now I could see that somebody could sell his house  
25 afterwards....

26 COMMISSIONER WALLS: You are asking to be  
27 relieved of taxes. You have not answered the question.

28 MR. MURPHY: I am dealing with the investment in  
29 the house.

30 COMMISSIONER WALLS: First of all you would have



1 a tax holiday for three years and you would not have to  
2 worry about tax payments on the house. Then are you  
3 saying taxes on the payments on the house would be a  
4 further tax deduction after the end of the three year  
5 period?

6 MR. MURPHY: In projecting these points we are  
7 pointing out the inequalities that exist at the present  
8 time.

9 THE CHAIRMAN: May I find out if you are talking  
10 about municipal taxes?

11 COMMISSIONER WALLS: No, he is not talking about  
12 municipal taxation. The last thing I want to deal with is  
13 this regulation on pension vesting. There is no regulation  
14 today respecting vesting. In the late '40's and 50's  
15 the National Revenue brought out a blue book but that  
16 was withdrawn so there are no regulations today one way  
17 or another.

18 I understand you believe a clause should be  
19 placed under the Section dealing with pensions in order  
20 that employers will not be able to deduct for tax purposes  
21 unless there is provided in the plan full vestal  
22 authority?

23 MR. MURPHY: We have had considerable  
24 experience with this question. The fact of the matter  
25 is in the big Companies that tie up a labour force they  
26 were not so much interested in the ordinary worker as in  
27 typing up their own engineers and staff they trained. By  
28 not providing for vesting those men would suffer a  
29 tremendous loss by leaving the Company. As far as the  
30 working man was concerned we dealt with the blue book.



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27 typing up their own engineers and staff they trained. By  
28 not providing for vesting those men would suffer a  
29 tremendous loss by leaving the Company. As far as the  
30 working man was concerned we dealt with the blue book.



1 At that time the blue book was a commitment on the  
2 Government policy.

3 There were these pension plans and the money  
4 was put in tax free or as an exemption and an allowance  
5 made and the employer would use that and say, "We are  
6 putting so much in the pension plan for you. It is  
7 deferred wages." Yet it provided no security. The man  
8 could be fired or laid off and his funds remained there.  
9 The Company didn't draw any out.

10 We tried to enforce that policy and there is  
11 nothing in the Income Tax Act dealing with it. When I  
12 went to the Department of Pensions in Ottawa and saw the  
13 hundreds of pension plans and two or three people in  
14 there I don't think they ever read the plans.

15 There is discussion that it should be a  
16 Provincial responsibility but as long as allowances are  
17 made from the Federal Treasury then I think it is of  
18 concern to the Federal Government. It not only prevents  
19 anybody taking this out but the individual workingman  
20 in whose behalf it is deposited should have a credit.

21 I know from practical experience with my  
22 membership in Kimberly and Trail that when we established  
23 it it did not cause a run but the fact it is there is  
24 protection. It is the same thing now in International  
25 Nickel. I understand that will come about through a  
26 Federal system. I don't think that the Federal Government  
27 can wipe its hands and say it is Provincial.

28 THE CHAIRMAN: I would doubt that we need to  
29 be too concerned about vesting. The Provinces will be  
30



1 going to pass laws requiring vesting and the Federal  
2 Government will bring down a wage related plan.

3 MR. MURPHY: What will happen to the funds then?

4 THE CHAIRMAN: Nobody knows at the present time.

5 MR. MURPHY: I suppose you will be dealing with  
6 it?

7 THE CHAIRMAN: I don't think we need to be  
8 concerned very much but it may be that before we get  
9 through it will be apparent to all concerned. The way it  
10 looks at the moment is that it will be taken care of by  
11 other means.

12 COMMISSIONER PERRY: I have just a few questions  
13 on the extent of processing done in Canada. First of all,  
14 what are the areas where more processing could be done in  
15 Canada? Which are the metals which are processed to quite  
16 an extent now? I would think nickel would be one of those.

17 MR. MURPHY: For nickel there is the production  
18 of stainless steel and the fabrication has been in the  
19 States at Huntington, West Virginia, for International  
20 Nickel. I would say at the present time the devaluation  
21 of the Canadian dollar has had a terrific effect on these  
22 Companies. They can ship concentrates to the United States  
23 and make a bigger return on their dollar. The silver from  
24 Keno now goes to Helena and asbestos.

25 Now the Government of British Columbia has a  
26 standing offer with those Companies to put a custom  
27 smelter at the Coast but there have been no takers because  
28 they have a smelter at Tacoma. They haven't got any copper  
29 in the State of Washington but it is based on Canadian  
30 copper and we ship it across there and bring it back.



1 These are international Companies now.

2 For years and years we have been mining iron  
3 ore at Kimberly. It was only when the Government of  
4 British Columbia allowed twenty million dollars to the  
5 Consolidated Mining and Smelting Company that we are  
6 taking up what we wasted. There is a lake of rust which  
7 is being used but it took a Governmental subsidy.

8 At Pine Point I think the Government will spend  
9 about twenty million dollars on a railway and that will  
10 take it to Trail. It takes subsidies. The C.P.R. and  
11 the Government subsidizes the railway to lug the  
12 concentrates from Pine Point to Trail .

13 What is holding up future development here is  
14 the fact we haven't got a custom smelter. A custom  
15 smelter could make a number of these properties here  
16 able to go into production but if they have to ship to  
17 the States or to Trail it is a heavy cost of bulk  
18 shipment.

19 I would go so far as to say that these Companies  
20 that stake up the valuable resources of Canada cannot  
21 hold them unless there is an integrated industry  
22 established and there will be a market because Canada  
23 imports manufactured goods.

24 COMMISSIONER PERRY: You argue that the Canadian  
25 tax system favours this sort of activity on the part of  
26 foreigners and that it gives them a superior position in  
27 getting control of our natural resources. Why do you  
28 think it favours the foreigners?

29 MR. MURPHY: Because they are the actual people  
30 with smelters and they can come in here and open it up



1 and bring it down there and they get the tax relief.  
2 I will give you concrete examples. Right at the border  
3 between British Columbia and the States of Washington  
4 there is Ponderay. The U.S. Mining Company set up a  
5 Canadian subsidiary and they are controlled by Bunker  
6 Hill Smelter and they would mine here and take it across  
7 to Bunker Hill. They have a tax exemption for three years  
8 and no interference with their profits, and they made  
9 plenty of profits.

10 COMMISSIONER PERRY: I was wondering if it is  
11 the structure of the Canadian tax system or the fact they  
12 have a smelter abroad. It is the same tax system that  
13 applies to Canadians and presumably the same incentive is  
14 given to Canadians.

15 MR. MURPHY: It is so graphic in the mining  
16 industry. It is largely foreign owned. The main  
17 Companies are United States controlled. These new  
18 Companies are setting up Japanese - Canadian Companies.  
19 There are heavy Japanese investments coming in here  
20 and they are shipping out of this country millions of  
21 tons of ore concentrates to be fabricated in Japan. They  
22 get an exemption here.

23 COMMISSIONER PERRY: I am prepared to accept  
24 your facts. I just want to know what the tax system has  
25 to do with the situation.

26 MR. MURPHY: Here is the speech of the Japanese  
27 Ambassador addressing our Conference. I have to hand it  
28 to the Japanese Government. They had an entourage that  
29 came to White Horse. I sometimes wish the Canadian  
30 Government would take as much interest. I will read



1 from page 7 of the speech of His Excellency the Japanese  
2 Ambassador at the Conference in Whitehorse. I think we  
3 can get you copies. It is dealing with metal mining.

4 He says.....I wish to repeat here again  
5 because of our economic position we must process the  
6 imported minerals and export the finished product.  
7 Canadian mineral exports to Japan can increase if the  
8 quality is high and the price competitive and we in turn  
9 hope that Canada will endeavour to buy our metal  
10 products, particularly equipment material for mines and  
11 hydro electric development.

12 He points out that this is dependent upon us  
13 buying manufactured metal goods from our own resources.  
14 Now that is a very nice way to subsidize the production  
15 of concentrates. We ship it to Japan and they ship back  
16 the manufactured goods and it is a nice arrangement for  
17 those that are in the Company and invest and earn money,  
18 but there is no incentive for them to set up a  
19 fabricating plant or even to do the slightest part of  
20 manufacture. This is an indication that closer ties are  
21 being established in the field of mineral resources.

22 COMMISSIONER PERRY: I think we are agreed on the  
23 basic proposition. This is a Commission on taxation and  
24 I am trying to understand the relevance of our taxation  
25 to the fact that there are foreign interests. You made  
26 the point that American tariffs had a great deal to do  
27 with this and may be this fact would continue to exist.  
28 There would not be much we could do about that.

29 MR. STEVENSON: I think the clearest answer is  
30



1 given to Mr. Davis. (Table 44, Royal Commission on  
2 Canada's Economic Prospects - Mining and Mineral  
3 Processing in Canada - page 322). We quote this in  
4 the brief:

5 "As long as the Canadian mining industry has a  
6 strong tax incentive to maximize the price on  
7 ores and concentrates and thereby minimize the  
8 profit position of smelters and refineries,  
9 there does not appear to be much room for the  
10 operation of custom smelting and refining operations  
11 in this country."

12 I think this is a particular point of relevance.

13 COMMISSIONER PERRY: But Mr. Davis speaks of  
14 the whole Canadian mining industry. He does not refer just  
15 to foreign capital.

16 MR. STEVENSON: I think the further emphasis  
17 that Mr. Murphy has placed on the question with  
18 relation to the fact that there is a very strong  
19 incentive for foreign countries to ship concentrates out  
20 strengthens the position taken by Mr. Davis.

21 COMMISSIONER PERRY: I grant that it may be a  
22 question of semantics whether there is no discouragement  
23 or not positive encouragement in Canada. You are sug-  
24 gesting there be positive encouragement for processing in  
25 Canada. I would appreciate having one point in your brief  
26 cleared up for me. In one place you propose a Government  
27 owned smelter and in another you suggest the tax  
28 system be changed to encourage private capital to do  
29 just this very thing, erect processing facilities.  
30



1 Obviously you don't need both. If you get one you don't  
2 need the other.

3 Do you have priorities there? It makes quite  
4 a difference to the thinking of this Commission as to  
5 which you would favour.

6 MR. MURPHY: Certainly the quickest way would  
7 be for these Companies themselves to do that but I  
8 read to you the statement of the President of the  
9 Imperial Bank of Commerce. They won't do it. They won't  
10 put up the money here unless they get guarantees of such  
11 a nature I don't believe any Government can give them.

12 The speech of the Ambassador from Japan spoke  
13 about how the Japanese Government put up the money in  
14 Japan. They could do it through private interests.  
15 The CM and S would not have built the iron plant in  
16 Kimberley without governmental guarantees. The uranium  
17 industry would not have developed but the Government of  
18 Canada guaranteed their price and their orders and  
19 actually put up everything except got any profit from it.

20 The men we meet in bargaining would blow their  
21 tops if we said their mine should be nationalized.  
22 Somebody has to do something up here and I have talked to  
23 them. I talked to the Company over here at Cassiar. I  
24 asked them, "What are we going to do in the winter when  
25 so many are unemployed and have to move to Vancouver?"  
26 You have to fight out bargains for them to pay the fares  
27 to come in.

28 It would not take very much to produce asbestos  
29 up here. We have the people and the power and if they  
30 won't do it why should Anaconda or any company build a



1 smelter up here or a refinery? Yet we have tremendous  
2 resources here that are fabulous.

3 COMMISSIONER PERRY: I asked you what your  
4 preference was?

5 MR. MURPHY: Our preference is to get it done.  
6 If they don't do it the Government of Canada must else  
7 this vision.....

8 COMMISSIONER PERRY: If you are going to give  
9 private industry a chance you would have to implement  
10 your tax proposal and see what happens.

11 MR. MURPHY: Somebody has to invest capital in  
12 here. The United States put up money through private  
13 companies to develop South America. I don't know what  
14 development we will have here but this is a future  
15 revenue market. That is what they do not lose on and  
16 that is what they have to develop. We have a whole  
17 population that is coming into work in Canada, the  
18 Eskimos and Indians. They are not going to go back to  
19 the caribou. There must be means or they will become  
20 social charges and continue that way, which they will  
21 refuse, or we must give them opportunities for employment  
22 in here.

23 THE CHAIRMAN: On this same point I am not  
24 very clear whether Mr. Murphy proposes that iron ore  
25 should be restricted if steel mills do not move to Canada.  
26 Surely it is somewhat impractical to think in those  
27 terms, is it not?

28 MR. MURPHY: The development of the iron mining  
29 in Canada is by American Companies, Pittsburgh and  
30 Cleveland and the Steel Company of Canada. The Steel



1 Company of Canada will import iron ore from the United  
2 States.

3 Now it is clear with the policies of the  
4 Company, with head office and main operations in the  
5 United States, it is going to be in the interests of  
6 finding raw materials out here.

7 I would strongly commend you to read the Paley  
8 Report on the resources of the United States. They  
9 are getting down to where they have to get it outside  
10 and we have to force them to come here to build plants  
11 and there should be special tax arrangements worked in  
12 such a way that they will not get the tax relief when  
13 they ship the concentrates out but will get heavier  
14 incentives when they build here and taxation evaluations  
15 should be geared in that way.

16 We are trying to make that point and it is in  
17 the national interest. We can't stay where we are. It  
18 is impossible.

19 COMMISSIONER PERRY: I think we get your point  
20 all right but it is not as simple as you might think.  
21 The people in Jamaica might feel the same about the  
22 bauxite sent to Kitimat. It works both ways.

23 MR. MURPHY: In raising this question before  
24 your Commission I would point out that there is not  
25 another industry that has a worse record than we have.  
26 Perhaps the electrical industry has a worse record but  
27 even General Electric produces a complete TV set in  
28 Canada, I think. I know they don't produce a complete  
29 car in Windsor but they are trying to get that way. The  
30



1 automotive workers had an idea of an integrated car and  
2 we would produce in Canada some parts that would go in  
3 American cars. That did not meet with any response in  
4 the United States.

5 Now the mining industry is something else.  
6 Gentlemen, I know the restrictions that are placed by  
7 the United States, which is our chief market, on lead  
8 and zinc going out of Canada. As soon as it crosses the  
9 border they meet difficulties with railways and rates  
10 and everything is done to keep us the other way because  
11 they would sooner ship concentrates. They are forcing  
12 the CMS to build plants in the United States and other  
13 countries are insisting on fabrication being built there.  
14 You would hear a lot more if we had an integrated  
15 Canadian trade movement.

16 THE CHAIRMAN: The CLC does not satisfy the  
17 need for greater co-ordination amongst Canadian  
18 labour; is that what you are saying?

19 MR. MURPHY: The CLC is made up with the voices  
20 of Unions who are branches in Canada of the United States  
21 unions. We have about one hundred and twenty thousand  
22 trade unionists in the National Catholic Syndicates now  
23 functioning in the Province of Quebec who cannot come  
24 into Canadian Labour Congress. Therefore they are truly  
25 a national organization. We have other unions that are  
26 not eligible for one reason or another. The Canadian  
27 Labour Congress cannot set up unions to conflict with  
28 them. They are the legislative mouthpiece...I think  
29 there are some restrictions there some way or other.

30 COMMISSIONER PERRY: On page 33 you propose



1 that a capital gains tax be applied in this industry.  
2 I wonder if you would elaborate on the sort of tax you  
3 have in mind there? It might be rather difficult to  
4 apply a tax which is limited to one industry.

5 MR. MURPHY: Of course we are only speaking  
6 about the mining industry. I am dealing with other  
7 means that could be used, including a capital gains  
8 tax, to bring pressure to bear on companies developing  
9 integrated operations. I don't feel that Canada should  
10 miss these chances for revenue if they are going to be  
11 suppliers to other countries of basic raw materials.  
12 If our heritage is taken out what do we get for it?

13 It has been stated how much in taxes is being  
14 collected in Canada over the years and it is fantastically  
15 low amount considering the size of the industry and the  
16 profits made.

17 COMMISSIONER PERRY: You propose it for this  
18 industry simply because you are looking solely at this  
19 industry?

20 MR. MURPHY: We are dealing with mining. We  
21 are for Canadian mining industry. We depend on it for  
22 our living. We bargain with them and we feel there is  
23 no future for our industry in Canada and we will be run  
24 out as long as we depend on it for our output.

25 You take zinc. We can produce lead and zinc  
26 cheaper than anywhere else in the world yet they had to  
27 accept a twenty per cent restriction in production. It  
28 is a world arrangement. The result is not as many men  
29 are employed and we are declining in number of working  
30 men employed.



1           We haven't got a driving industry that goes  
2 out for markets for manufactured goods like the Japanese  
3 have. We haven't got anything like that. I haven't  
4 anything against that. I object to us not doing the  
5 same. They had a big unemployment problem and a problem  
6 with their balance of payments and they were defeated  
7 in the last War. How could they make steps forward  
8 without natural resources? Here is Canada, blessed in  
9 every way except one, and we are only supplying them.

10           THE CHAIRMAN: I have one or two questions.  
11 You suggest with regard to the individual that taxation  
12 ought to start on the amounts he receives in excess of  
13 the ordinary standards for health and decency.

14           Now, of course, this is a point with which we  
15 are very much concerned: Where taxation should start.

16           Taxation is simply expenditures that we make  
17 as a group rather than as an individual. When we come  
18 together and provide for our own retirement by way of  
19 old age security raised out of taxation, baby bonuses,  
20 or, if you like, garbage collecting, those things if  
21 done individually might rank with the ordinary  
22 standards of health and decency. If they are put  
23 together under the heading of taxation and provided  
24 collectively why should they then be deferred to a  
25 secondary position? Why should we maintain our ordinary  
26 standards of health and decency exclusive of taxation  
27 and then pay tax beyond that?

28           I don't think your argument that they are  
29 collective payments does you any good at all. I don't  
30 think you can push them off on other people because we



1 can't look after them ourselves.

2 Would you like to speak to that?

3 MR. MURPHY: Yes. We have been approached by  
4 many people with the question: "When are you going to be  
5 satisfied?" We have had conciliation officers and  
6 commissioners appointed by the Government to try and  
7 settle disputes between labour and management on what  
8 is a proper wage.

9 In the United States at the University of  
10 California the Heller Commission was established and it  
11 made an attempt to envisage the amount necessary for  
12 health and decency.

13 With regard to housing we can take the provisions  
14 of the NHA with regards to housing and we can figure that  
15 out indirectly and we have the experts on clothing and  
16 so on in various parts of the country and we can on that  
17 basis arrive at what is health and decency.

18 The Government does set out standards for  
19 corporations and sets the taxes. It makes allowances  
20 for costs of production, exploration and development  
21 and then it deals with profit and over and above that  
22 they figure out the taxes.

23 Now this is what gripes me...A man has to sit  
24 down and bargain with the Company. There isn't anybody  
25 saying what should be a standard and upon which you  
26 would declare that to be so. I can show you a study  
27 they made in Vancouver of the amount necessary to  
28 maintain life and limb and we come to a figure of about  
29 \$95....That is worked out in detail.

30 Now what about a family? What about the way



1 we are taxing them? Is it fair to tax a man when he has  
2 not received enough money to maintain his family in a  
3 standard of health and decency. Most of them sacrifice  
4 certain things. The standards are continually changing.

5 Today we have this pension vesting plan and I  
6 thought the men would retire at sixty. They get their  
7 pension and the agreement provides that the men would be  
8 able to retire at sixty. If they were employed before  
9 1941 they have reached that age and I was talking to a  
10 number of those chaps and they have sons and daughters  
11 now entering the Universities. That was not considered  
12 in the old days. They keep on working longer. /

13 These problems that arise today are not properly  
14 taken care of. We haven't any Commission in Canada that  
15 sets down the standard. On what basis do we arrive at  
16 \$2,500. for a man, wife, and child? I can't see it. Why  
17 would he pay a tax on seventeen per cent of his wages?  
18 We bargain with the employers for a wage increase and then  
19 the Federal Government comes in and takes half of the wage  
20 increase. Why doesn't Mr. Pearson go out and bargain with  
21 the employers? A wage increase is something we have to  
22 fight for and use arguments to get and the wage increases,  
23 when they are put through, are all before taxes. The  
24 Companies put their statements out after taxes and then  
25 establish the profit.

26 I think there should be some study made of the  
27 basis of individual taxes. This problem in Whitehorse,  
28 which prevails throughout the North, is so clearly  
29 established that they should not be under the general  
30 laws of Canada itself.



1 THE CHAIRMAN: I am very glad that the Unions  
2 have kept on fighting throughout the ages for increased  
3 pay. I doubt if their fight would have been so vigorous  
4 if somebody had established what might be a fair wage  
5 standard. I think they have properly fought for the most  
6 they could achieve and I think we are all grateful to them.  
7 I think we have all said many times that our own living  
8 has improved because of the success of Unions over the  
9 years.

10 I would like to make a point very clearly: If  
11 people are exempt from taxes because of deductions which  
12 are higher than they are now, or because of exemptions  
13 for social or other reasons, it quite clearly means that  
14 their neighbour pays the taxes they don't pay. There is  
15 no pool where these things are achieved without cost.  
16 I think we have to be concerned with the shift from  
17 people to other people.

18 It is all very well to talk about a standard of  
19 decency and health, with which we are bound to agree in  
20 principle, but the question is are we talking about a  
21 bare subsistence to provide a decent living? I don't  
22 think a bare subsistence will do that. It is not very  
23 clear where the point is, or where it ought to be.

24 I hope you people will have made it clear to  
25 us what your views are. It is an extremely important  
26 point to the Canadian national economy. About twenty-five  
27 per cent of the total population now pay taxes and I know  
28 the tax source would dry up quickly if it were cut from  
29 twenty-five to fifteen per cent. A big shift in the  
30 exemptions would knock that down and put quite a weight on



1 the other people.

2 It is all very well to talk about a capital gains  
3 tax producing all we need but I would be very surprised  
4 if there is that much in it. The experience of other  
5 countries doesn't support that. I think we have to be  
6 careful how we speak of these things. We should not be  
7 too much persuaded by our own feelings for social justice.  
8 We are striving towards that. It is a question of how  
9 far we can go and how speedily.

10 MR. MURPHY: I realize the point you make. I am  
11 dealing with actual ability to pay as a criterion. Do we  
12 in Canada want to have it said that we are taxing people  
13 who have not yet established for their family an income  
14 that provides for a standard of health and decency? We  
15 are not doing very much at this time except accumulating  
16 a debt which is burdening us so fantastically.

17 I want to go back to this very question. We had  
18 a delegation from Europe visit the mines and they were  
19 quite impressed by the big parking lots and the cars.  
20 The workers at Keno will have cars snowed in for seven  
21 months of the year.

22 I know a good part of our members have to have  
23 cars. Over in Britain the Coal Board provides bus  
24 transportation. They have wonderful transportation. Here  
25 the Companies have gone out of the business of providing  
26 Company towns and cheap housing. Now our men are living  
27 thirty and forty miles away from work. The Companies  
28 do not put up housing, we are away from that, and there  
29 is no public transportation.

30 Now in ordinary circumstances this car represents



1 a cost of \$15. a week to operate. Those people in  
2 Britain don't have to worry about that. You buy this  
3 car on instalments and you are denying your family a lot  
4 of things in order to maintain your job.

5 I would say on principle there should be some  
6 study made of ability to pay. If they base this on an  
7 income across Canada, and the cost of living of \$3,600.  
8 a year for the average family income, I think it is a  
9 close enough figure. I would say such a figure upon which  
10 we base this index is faulty. It does not represent  
11 reality. It varies according to various parts of the  
12 country.

13 We have workers up here at Dawson City in the  
14 hydraulics industry who work six or seven months a year  
15 and they come back here and their wages are figured on  
16 that. The hourly wage sounds good but the yearly income  
17 is not sufficient.

18 I don't know if I have answered your question.  
19 I say there should be some study made on ability to pay  
20 upon which income tax should be collected. Certainly if  
21 a big class of people goes out from income tax the burden  
22 will fall on others but as you see the profit sheets they  
23 are able to do it and we have accepted their standard too.

24 I don't think anyone would blame the Commission  
25 if you would put it on that basis because you simply  
26 cannot work against the amount necessary to maintain  
27 health and decency. You could even be elected to the  
28 Senate on that!

29 THE CHAIRMAN: I don't think we have any more  
30 questions. Mr. Murphy, you have been very complete in



1 your answers and you have helped us a great deal. It  
2 has been a pleasure to come up here and visit this  
3 great country. While we do not know a great deal about  
4 the country we share your enthusiasm for it and we are  
5 glad to hear you speak of it like you have.

6 Thank you very much for coming here this  
7 afternoon and for being so interesting and informative.

8 MR. MURPHY: I want to thank you very much for  
9 coming here. I know it is very rarely that Commissions  
10 come to the Yukon and Yellowknife on a general Canadian  
11 question and this recognition is wonderful. It has  
12 meant quite a bit of travelling and I know what it is  
13 to travel in this country. I am very pleased to be here  
14 and if there is any contribution we can make towards  
15 developing our country through the medium of this  
16 Commission or any other way I can assure you that the  
17 members and officers and workers will do everything we  
18 can.

19 THE SECRETARY: There is no further business,  
20 Mr. Chairman.

21  
22 ---- The hearings were then adjourned, to resume in  
23 Yellowknife, Northwest Territories, at 3:30 p.m.  
24 on Wednesday, July 24th, 1963.  
25  
26  
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# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT

YELLOWKNIFE  
N.W. TERRITORIES

VOLUME No.:

31

DATE:

July 24, 1963

July 25, 1963

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3 THE ROYAL COMMISSION ON TAXATION  
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8 HEARINGS HELD IN THE COURT ROOM AT  
9 YELLOWKNIFE, NORTHWEST TERRITORIES,  
10 COMMENCING AT 3:30 P.M. ON WEDNESDAY,  
11 JULY 24th, 1963.  
12  
13

14 BEFORE:

15 MR. KENNETH LeM. CARTER	Chairman
16 MR. J. HARVEY PERRY	Commissioner
17 MR. CHARLES E. S. WALLS	Commissioner
18 MR. G. BENNETT	Secretary

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# ROYAL COMMISSION ON TAXATION

## HEARINGS HELD AT YELLOWKNIFE, NORTHWEST TERRITORIES

July 24, 1963

### TOPICAL INDEX

VOLUME No. 31

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a )	<u>INTRODUCTION:</u>	
	Opening remarks of the Chairman	48
( b )	<u>Submission: Of</u>	
	<u>Yellowknife Board of Trade</u>	48
5	Business Income Taxation - Incentive Measures	64, 65
II	Business Income Taxation - Specific	
	Industries	57, 62, 63
35	Personal Income Tax - Exemptions and Allowances	49 - 53, 57 - 67
46	Sales Tax - Federal	50, 53 - 55
( c )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	49 - 51
	Composition of Yellowknife Board of Trade, and industries represented.	51
	A reference to Isolated Post Allowances Civil Servants v/s non-Civil Servants Re; tax exemptions based on Cost of Living in Northwest Territories.	52, 53, 55 57 - 63, 65
	A point of reference to Sales Tax should be exempted in the north country, present applications being on the basis of end product, the suggestion of being applied at retail level.	50, 53 - 55
	A point of discussion related to high cost of living in northern Territories and the Federal Government Isolated Post Allowances, some viewpoints of exemption from local taxation to offset burden of Income Taxation on non-civil Servants.	55, 56
	A reference to Isolated Post Allowances used by unions as a basis of negotiating with employers on contract wage agreements and, supplementary allowances and the subsidies as provided.	65 - 67
	Closing remarks of the Chairman	67, 68



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Yellowknife, Northwest Territories.

July 24, 1963

Volume No. 31.

Titles	Description	Page
( d ) <u>Submission: Of</u>		
	<u>Doctors Case and Powell, Yellowknife, N.W.T.</u>	61
	Opening remarks of the Chairman	68, 69
5	Business Income Taxation--Incentive Measures	77
19	Economic Growth	76
35	Personal Income Tax--Exemptions and Allowances	72 - 76
( e ) <u>Preamble</u>		69
	A point of reference in relation to self-employed persons located in the Northern Territories, their earned income and experiences tax-wise, what inducement prevails to establish and remain in the regions.	71
	A reference to Isolated Post Allowances Re; Civil-Servants v/s self employed and union members re; salaries and wage basis and taxation of, a viewpoint of exemption discrimination.	71 - 76
	A question of tax incentives as a future development of the Northern regions.	76
	Closing remarks of the Chairman	77, 78
( f ) <u>Submission: Of</u>		
	<u>Citizen's Committee of Norman Wells</u>	78
	Opening remarks of the Chairman	78
5	Business Income Taxation--Incentive Measures	83, 85
35	Personal Income Tax- Exemptions and Allowances	81 - 84, 86
( g ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	78, 80
	Nature of the Community of Norman Wells, how established and history of.	78 -- 80
	A point raised suggesting averaging trappers and hunters income on same basis of farmers and fishermen.	71, 85, 86
	A reference to Isolated Post Allowance by The Imperial Oil Company to employees.	82
	A reference to tax concessions to the individual as an inducement to establish in the northern regions for purposes of future development, and high living costs.	83, 84
	Closing remarks of the Chairman	86



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July 25, 1963

Volume No. 31

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( h ) <u>Submission: Of</u>		
	<u>The Commissioner of The Northwest Territories</u>	87
	Opening remarks of the Chairman	88
5	Business Income Taxation- Incentive Measures	IO3- IO7 IO8- III II4, II7
44	Regional Development	88 - IO6 II2, II3
( i ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	88 - 95
	A resume of the land area north of the sixtieth parallel, its future development and Industrial potential.	88 - 95
	A reference to extent the Federal Government is participating in the development of the Northern regions for future industrial exploration and expansion in conjunction with The Government of The Northwest Territories.	96 - IOI IO3.
	A point of reference to the regional, oil, gas and other mineral development and potential, some comments and viewpoints expressed relative thereto.	IOI, IO2, IO4
	A question raised as to whether it is more important for the Government to spend more money on development of means of access rather than giving tax concessions towards the development of the North Country, the reaction to the point raised, and the viewpoint expressed.	IO3 - IO8
	A reference to the United States depletion method in assisting industrial development and expansion in the mining Industry in remote regions.	IO9
	A reference to specific tax proposals as setforth on page I8 of the brief pertaining to exploration expenses, some points raised and the viewpoint expressed.	II0 - II2
	A reference to foreign Investments in many ventures, the quoted statement, that, to a large extent Canadian Tax concessions in mining areas being developed, might simply be a subsidy to the United States Treasury, the reaction to the point raised.	II2, II3



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Yellowknife, Northwest Territories.

July 25, 1963

The Commissioner of the  
Northwest Territories

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<u>Titles</u>	<u>Description</u>	<u>Page</u>
( i )	<u>SPECIFIC DISCUSSIONS ( continued )</u>	
	A point of reference to depletion allowances, and the question of the point at which the exploration expenses should be deducted, a few basic arguments and viewpoints expressed relative thereto.	II4 - II7
	Closing remarks of the Chairman.	II7, II8
	<u>ADDENDUM: Volume No. 30</u>	
( j )	<u>Submission: Of</u>	
	The International Union of Mine, Mill & Smelter Workers ( Canada)	
	Re: Hearings held at Whitehorse, Yukon Territory on July 22, 1963	
	Additional representations on behalf of aforementioned participant.	II8 - I20
	Closing remarks of the Chairman.	I20

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
	<u>July 24, 1963</u>	
98	Brief of Yellowknife Board of Trade, N.W.T.	48
99	Brief of Doctors Case and Powell of Yellowknife, N.W.T.	68
100	Brief of Citizen's Committee of Norman Wells.	78
101	Brief of Inuvik and Western Arctic Development Association.	87
	<u>July 25, 1963</u>	
102	Brief of The Commissioner of the Northwest Territories.	87



1 THE CHAIRMAN: We have reached the hour of  
2 3:30 p.m. set for the hearing. I might say, Your  
3 Worship, that we are delighted to be in this municipal  
4 district. We would have been very remiss in our duties  
5 if we had not come to this important part of Canada. I  
6 think all national organizations should be familiar with  
7 the north country if they are going to report on this  
8 country.

9 Mr. Secretary, would you put this hearing in  
10 motion?

11 THE SECRETARY: It is a pleasure, Mr. Chairman.  
12 We have, as you are aware, three briefs this afternoon  
13 and there will be one tomorrow morning from the  
14 Commissioner of the Northwest Territories and one which  
15 I am entering as an Exhibit.

16 The first brief is from the Yellowknife Board  
17 of Trade. This was received in our office in Ottawa on  
18 July 15th. Mr. D. Finlayson is the President and is  
19 here to speak. Mr. W. Magrum is the Secretary and is  
20 associated with him. His Worship Mayor Ted Horton is  
21 representing the municipal district.

22 I would like to enter this brief into the record  
23 as Exhibit 98.

24 EXHIBIT 98: Brief submitted by Yellowknife  
25 Board of Trade.  
26  
27  
28  
29  
30



Submission

by

The Yellowknife Board of Trade

A P P E A R A N C E S:

Mr. D. Finlayson	President of Yellowknife Board of Trade
Mr. W. Magrum	Secretary of Yellowknife Board of Trade
Mayor Ted Horton	Representing Municipal District.

THE CHAIRMAN: Thank you, Mr. Secretary. Mr. Finlayson, it is the practice for those appearing, who have submissions to make to the Commission, to speak to the brief but not read it. The brief is in the record. We would be pleased if you would say a few words regarding the brief, to summarize it or amplify it. We have a number of questions which we will put to you after you have spoken.

MR. FINLAYSON: Mr. Chairman and gentlemen. We prepared this brief with the feeling that the personal income tax structure in the Northwest Territories is not quite equal to the rest of Canada, based on the Federal Government's statistics for providing cost of living to their employees.

We are not in a position to employ a large staff of economists so we have had to use their cost of living figures and their subsidies which are provided to civil servants to arrive at the figures shown here for comparison.

We are not doing this in the sense that we are



1 complaining about the rates paid civil servants but  
2 merely to point out that we feel this is necessary to  
3 live adequately in the north and with the present method  
4 of tax structure we feel that there should be some  
5 compensation for others living in the north. We would  
6 suggest that an exemption of double the normal exemption  
7 in Canada be granted to residents north of the sixtieth  
8 parallel.

9           Going through the schedules in here, which were  
10 prepared by one of our chartered accountants and we have  
11 every reason to believe they are correct, it is fairly  
12 obvious that with our cost of living and so on we are  
13 almost having a sub-standard living here for the same  
14 amount of pay that is being provided in Edmonton.

15           Another point that was mentioned, which is also  
16 in the national interest, was the question of an increased  
17 allowance for children in the higher grades of school,  
18 providing they remain in school.

19           The problem of drop-out, combined with the fact  
20 that the bulk of our unemployed is of the unskilled  
21 labour market, leads us to believe that if the parents  
22 received an additional tax exemption for every year a  
23 child stayed in school longer or was apprenticed this  
24 might encourage the whole Canadian economy to develop  
25 a greater force of skilled labour.

26           The question of sales tax in the Territories,  
27 which is on the end product, naturally leads to  
28 inequalities of competition where we have to pay higher  
29 wages and higher operating costs and therefore your  
30 end cost is much higher than in Edmonton, for example.



1 The tax is based on the end cost. This makes for very  
2 difficult competition.

3 I believe that the schedules that have appeared  
4 here, of which you have copies, summarize briefly the  
5 points that we would like to bring out.

6 THE CHAIRMAN: Thank you indeed, Mr. Finlayson.  
7 We have read your brief with considerable interest and  
8 we all have questions to put to you. Before doing so  
9 would you tell us a little bit about the Board of Trade?  
10 I myself am ignorant about your local economy. Who are  
11 the members of the Board of Trade? To what degree can  
12 they be manufacturers? I would assume they are mostly  
13 merchants.

14 MR. FINLAYSON: The mines are all members, a  
15 large percentage of the merchants, and all the  
16 manufacturers in the community are members of the Board  
17 of Trade. We have a membership of about sixty firms.

18 THE CHAIRMAN: About sixty?

19 MR. FINLAYSON: Yes. There might be fifty-five  
20 and five individual memberships but it is approximately  
21 sixty.

22 THE CHAIRMAN: How many mines are in the area?

23 MR. FINLAYSON: Two. Consolidated Discovery  
24 mine is approximately fifty miles out and the Tundra Mine  
25 is being developed now and it is just over a hundred miles  
26 out of town. The mines are our major industry, of course.

27 THE CHAIRMAN: You spoke about other industries.  
28 What would they be?

29 MR. FINLAYSON: There is bottling, printing, mill  
30 work. To develop a secondary industry this is a deterrent.



1 this is a deterrent that this tax has, as we understand  
2 it.

3 COMMISSIONER WALLS: I have one or two questions.  
4 On page 2 where you deal with the Isolated Post Allowance  
5 you quite fairly state that you feel there are such  
6 places even outside the Northwest Territories and that  
7 non-civil servants in these communities should also be  
8 permitted extra income tax exemptions.

9 I take it what you are referring to is the fact  
10 that at one time the Isolated Post Allowance was paid to  
11 all places above the fifth-fifth parallel. Now, of course,  
12 as you no doubt know, it is allotted on a point system  
13 to all points in Canada. Therefore, following up your  
14 argument, any place where the points go above a certain  
15 minimum an allowance is paid and therefore they should  
16 get the same tax concession as you are now asking for  
17 the Northwest Territories.

18 Am I right that that is your interpretation?

19 MR. FINLAYSON: Yes, it is. We used the  
20 Northern Affairs personnel manual list of posts and  
21 checked the number that were outside of the Territories,  
22 northern Alberta and so on.

23 COMMISSIONER WALLS: I notice there are many  
24 that are not listed that are in fact located in the rest of  
25 Canada. Even with those listed there is as large a  
26 spread as \$1,000. for a married man between the grants  
27 allowed one place and another. If you only allowed twice  
28 the existing exemption would you not be creating as big  
29 an inequality between one place subject to the Isolated  
30 Post Allowance as another?



1 MR. FINLAYSON: This is a possibility.

2 COMMISSIONER WALLS: You have not thought of any  
3 other alternatives? We are not depreciating the  
4 situation but it seems by merely doubling the existing  
5 exemption you are not answering the problem of equality  
6 between the cost of living in one part of Canada and  
7 another.

8 MR. FINLAYSON: We had considered this and we  
9 would like to use the sixtieth parallel as a line but  
10 using the Federal Government's Northern Allowance System  
11 they don't use it. This is why we referred to the  
12 Isolated Allowance for other parts of Canada.

13 COMMISSIONER WALLS: On page 3 you deal with  
14 sales tax. You only mention the two manufacturing  
15 industries that are affected up here at the present time.  
16 One is referred to as a printing establishment and the  
17 other the manufacturing of Coca Cola?

18 MR. FINLAYSON: That is true, yes.

19 COMMISSIONER WALLS: In effect are you not  
20 asking that all sales tax should be exempted in the north  
21 country?

22 MAYOR HORTON: Yes, that is correct.

23 COMMISSIONER WALLS: Under a manufacturer's  
24 sales tax would you not foresee that it would be rather  
25 difficult for a manufacturer to know where his product  
26 is going to finish up? He has to pay sales tax when his  
27 product is shipped out. It goes to the wholesale houses  
28 and it could go to the Northwest Territories as well as  
29 any other part of Canada.

30 Have you given any thought to the fact that



1 perhaps if sales tax was moved on to another level it  
2 might be easier for you to designate exemption  
3 territory-wise? If it was changed to a wholesale or  
4 retail tax it might be easier to define exemption on  
5 an area basis.

6 MAYOR HORTON: We felt that exemptions are now  
7 given not on a geographical basis but another basis, not  
8 on product basis but ultimate consumption basis.  
9 Hospitals are exempt from sales tax, so are some  
10 Government Departments. Our thinking was that the same  
11 formula, the same methods could be used in arriving at  
12 the payment of sales tax as are now used. The manufacturer  
13 who supplies the hospitals, his goods go to a wholesaler.  
14 By some formula or other hospitals are now exempted.  
15 Surely the same formula could be applied geographically.

16 COMMISSIONER WALLS: I imagine there would be  
17 administrative complications in order to cover the wide  
18 range of goods that would come in here. I wanted to get  
19 it clarified. Have you given any thought to the  
20 movement of the sales tax forward to either the  
21 wholesale or retail level where it would be simplified?

22 MAYOR HORTON: We had thought about the retail  
23 level. This has been discussed on a territorial basis  
24 and the administrative difficulties would be even greater.  
25 The Territorial Council has discussed the matter of a  
26 retail sales tax.

27 THE CHAIRMAN: They thought of imposing it for  
28 the purposes of the Territories?

29 MAYOR HORTON: Yes, and abandoned it on the  
30 grounds it would be difficult to administer. There are



1 the trading posts on the Mackenzie River and this sort of  
2 thing.

3 THE CHAIRMAN: That is interesting because we  
4 have had it recommended to us that the Federal Government  
5 embark on retail sales tax and it would involve a sales  
6 tax to all the posts you speak of.

7 MR. FINLAYSON: I think the Council in their  
8 studies of it arrived at the conclusion it would cost  
9 more to collect it than they would collect.

10 MAYOR HORTON: Particularity in the Northwest  
11 Territories.

12 COMMISSIONER WALLS: Now you deal with the  
13 higher cost of living. There is no question about the  
14 fact that you are an isolated post and the allowance by  
15 the Federal Government proves the fact that your cost of  
16 living is high.

17 Is it not a fact that living up here you do  
18 escape certain taxes the average citizen elsewhere has  
19 to pay? I am thinking particularly of education. You  
20 can correct me if I am wrong. As I understand it up  
21 until now the individual in the Northwest Territories has  
22 paid little or no property tax. I believe it is about  
23 five thousand dollars altogether for the Northwest  
24 Territories in comparison with one hundred and thirteen  
25 thousand in the Yukon. For schools you have paid nothing  
26 up to now as against one hundred and seven thousand  
27 in the Yukon Territory. You have no poll tax and they  
28 have a poll tax. There may be reasons for this.

29 MR. FINLAYSON: The Municipality of Yellowknife  
30 has a poll tax.



1 COMMISSIONER WALLS: You haven't got a  
2 Territory ordinance covering it?

3 MR. FINLAYSON: No. In this community we have  
4 one public elementary school, a Federal high school,  
5 elementary separate school and elementary high school.  
6 The only school on which no taxes are levied on the mill  
7 rate in Yellowknife is the Federal high school. It only  
8 covers students from Grade 10 to 12. We operate exactly  
9 as any other municipality outside.

10 COMMISSIONER WALLS: So within the municipality  
11 you have municipal taxes?

12 MR. FINLAYSON: Yes.

13 COMMISSIONER WALLS: That is why I want to get  
14 that clarified. We received figures of revenue based on  
15 a territory ordinance. While there was a territory  
16 ordinance covering the items in the Yukon there was none,  
17 or practically none covering that in the Northwest  
18 Territories.

19 MR. FINLAYSON: Hay River has just turned into a  
20 municipality very recently so basically Yellowknife is  
21 the only municipality in the Territories that operates as  
22 a town, as you understand a town in the Provinces.

23 COMMISSIONER WALLS: Outside of this town, as I  
24 understand it, the Federal Government pays for the cost  
25 of education with the Territorial Council then  
26 contributing for the white students. The Federal  
27 Government pays the cost of the Indian students and from  
28 the funds of the Territorial Council the costs of the  
29 white students are paid. Am I right in that?

30 MR. FINLAYSON: I am not sure.



1 MAYOR HORTON: You are right, I believe.

2 COMMISSIONER WALLS: You ask that the same  
3 concession which is given in regard to the opening of  
4 individual mines, a three-year moratorium on taxes,  
5 should be applied to secondary industry?

6 MAYOR HORTON: Yes.

7 COMMISSIONER WALLS: Why would you pick out  
8 secondary industries? If you are opening up a new  
9 country would you not want that to apply to all types of  
10 businesses?

11 MR. FINLAYSON: We felt that industries such  
12 as the refining of ore and fish packing and canning, the  
13 type of industry where there is a fairly large capital  
14 investment in equipment, should receive the same grants  
15 as a mine going into production.

16 COMMISSIONER WALLS: You think it should stop  
17 at secondary industries. You don't want to encourage  
18 people to open up garages or the Doctors to set up a  
19 medical clinic? You don't think they should get the  
20 three-year moratorium?

21 MR. FINLAYSON: We didn't want to appear greedy.  
22 We felt this would help develop the country.

23 COMMISSIONER WALLS: I just want to get it clear  
24 what you do want. I have one other question I would like  
25 to ask with regards to Schedule 1. On the bottom half  
26 of the page in your calculation of the purchasing power  
27 of salaries after adjustments for the higher cost of  
28 living and extra taxes we come to the housing subsidy.  
29 You show the civil servant with an average of \$1,593 and  
30 you show no subsidy in Edmonton. You show the same amount



1 of \$1,593. for other citizens. Now that \$1,593., as I  
2 understand it, is based on the average of the housing  
3 grants and things that go into it ~~that you have~~ based on  
4 the Isolated Post Allowance. We have a brief following  
5 this from two Doctors. Do they get the \$1,593.?

6 MR. FINLAYSON: No, neither do the other  
7 citizens. This is the accountant's way of setting up a  
8 set of books.

9 COMMISSIONER WALLS: I understand you perfectly.  
10 I am working with some of them on this Commission and I  
11 have equal trouble!

12 THE CHAIRMAN: Don't provide this kind of  
13 opportunity, please!

14 MR. FINLAYSON: If that figure is removed the  
15 Net Purchasing Power figure is the one.

16 COMMISSIONER WALLS: That is what makes your big  
17 difference. If that figure were removed, as it seems it  
18 should, you would not have the low relationship of  
19 fifty-nine per cent in comparison with Edmonton. It  
20 would be quite a bit higher than that. I cannot  
21 reconcile that being granted to the other citizens here  
22 because I feel sure they don't get it.

23 THE CHAIRMAN: He is saying here that it is by  
24 virtue of their negotiating position. In most cases they  
25 have negotiated their pay with a sufficient figure to  
26 cover the equivalent of what the housing subsidy would  
27 have been to civil servants.

28 COMMISSIONER WALLS: I will reserve that  
29 question for the two Doctors. It will be interesting to  
30 know how they negotiate it.



1 THE CHAIRMAN: They put their fees up.

2 COMMISSIONER PERRY: As you may imagine we are  
3 very interested in but somewhat confused about the relative  
4 levels of income between here and outside. Going back  
5 to Schedule 1 and looking at the top half of the  
6 statement there is a tab at the side which reads: "Extra  
7 salary normally paid to northern employees to offset  
8 high cost of living, but not shown separately"...entered  
9 at \$1,460., which happens to be the same as the Northern  
10 Allowance but is shown in the "Other Citizen" column.

11 Now is this some sort of acknowledgment that  
12 the salaries of other citizens are in fact higher here  
13 to this extent?

14 MR. FINLAYSON: Yes, they have to be higher to  
15 attract labour.

16 COMMISSIONER PERRY: You are just using the  
17 Northern Allowance as a rough approximation to show the  
18 extent other salaries are higher here?

19 MR. FINLAYSON: Yes.

20 COMMISSIONER PERRY: It would seem then that the  
21 main point of grievance is directed at the housing subsidy.

22 MR. FINLAYSON: This is not a point of grievance.  
23 We are not begrudging the Civil Service this allowance.  
24 We feel it is necessary for them to live in adequate  
25 housing here. We feel that the individual citizen, who  
26 is not employed by the Government, should have some  
27 benefit to put them up to the level of the others.

28 COMMISSIONER PERRY: The civil servants, of course,  
29 negotiate with one boss only, the boss in Ottawa, and they  
30 are paid at the same rate all over the country. As I



1 understand it the purpose of the Isolation Allowance is to  
2 bring their income in this area up to what it would be  
3 if they were in Ottawa. As Mr. Walls has said that is a  
4 correction that can apply in any part of the  
5 country where there are additional costs. In that sense  
6 this replaces the bargaining power that the ordinary  
7 citizen has in dealing with his own employer.

8 I would think for that reason it may give you  
9 less grounds for your argument for income tax exemption.

10 MR. FINLAYSON: Unfortunately I haven't seen  
11 anything to prove this press report but I understand  
12 the Territorial Council in their sittings in Inuvik  
13 have asked for a higher Northern Allowance for civil  
14 servants. They feel that even this Northern Allowance  
15 that we show is inadequate. Dealing with housing, the  
16 civil service standard of housing in the general run is  
17 in the twenty to twenty-two thousand dollar house or  
18 duplex. Mind you this is with our high cost of building.

19 COMMISSIONER PERRY: You are suggesting this is  
20 a fairly good standard of housing?

21 MR. FINLAYSON: Yes, it is a good standard.

22 COMMISSIONER PERRY: Even with your high costs?

23 MR. FINLAYSON: Yes.

24 THE CHAIRMAN: Before you leave that point, I am  
25 curious as to why the housing allowance is not included  
26 in taxable income. I suppose it was thought that  
27 housing was too expensive and it should be reduced rather  
28 than paid as additional compensation.

29 MR. FINLAYSON: You notice on Schedule 2 it is  
30 not a basic twenty-five per cent. It is twenty per cent



1 for rental and utilities is five per cent up to the  
2 maximums.

3 THE CHAIRMAN: Is there an exemption in the Act?

4 MR. PERRY: There is an exemption for travel or  
5 transfer or living expenses allowances expressly affixed  
6 in an Act of the Parliament of Canada. This is a fairly  
7 limited sort of thing. I don't know whether these  
8 amounts are fixed in an Act of the Parliament of Canada  
9 or not. There are allowances given to eight separate  
10 items. Undoubtedly it must be covered by one or other  
11 of them otherwise the tax people would want to know  
12 why.

13 COMMISSIONER WALLS: I think we should look into  
14 that.

15 COMMISSIONER PERRY: You mentioned you would be  
16 in favour of an extended allowance for children attending  
17 school. I was wondering just what you had in mind. The  
18 present allowance is unlimited as to age. A child under  
19 twenty-one who is dependent on the taxpayer is fully  
20 deductible. A child over twenty-one who is continuing to  
21 attend school is also deductible.

22 Now was it something in addition to that you had  
23 in mind?

24 MR. FINLAYSON: Yes, it was a question of possible  
25 coercion on the parents to make the child continue to go  
26 to school so he does not become an unskilled labourer.  
27 We want to give the parent an incentive to see that the  
28 child stays in school instead of dropping out. We have  
29 quite a percentage of drop-outs here at the sixteen -  
30 seventeen year old age and these children are ending up



1 as basically labourers rather than skilled or semi-  
2 skilled workmen.

3 COMMISSIONER PERRY: This is happening in all of  
4 Canada. Forty-three per cent of our labour force did  
5 not go beyond Grade 8, so I understand, and they are a  
6 large proportion of the unemployed. It is a great  
7 national problem. I was wondering if it was more  
8 aggravated here. Does it have more application to your  
9 part of the country?

10 MR. FINLAYSON: I believe it does. We have  
11 quite a heavy population of Metiff and Indian people  
12 that tend to drop out of school rather early.

13 COMMISSIONER PERRY: This gets into complications.  
14 Quite often children have to leave school in order to  
15 support their family. I know it would be argued because  
16 I have seen it argued that if you give an additional  
17 allowance for children who were attending school the  
18 charge would be made that this would be doubling the  
19 blessing that these children already had, in other words  
20 that they were able to attend school. There are counter-  
21 arguments.

22 THE CHAIRMAN: Not only is the country providing  
23 free education but it has gone forward and applied bonuses.

24 COMMISSIONER PERRY: We get your point anyway.  
25 Do you think that there are factors up here which, in the  
26 case of a new secondary industry, would override even the  
27 inducement of a three-year income tax exemption? Do  
28 you think there are other factors which would discourage  
29 new industry from coming in here?

30



1 Admittedly it is a high cost area. It is a  
2 long way from the markets of the country and of the  
3 world. Admittedly an income tax exemption would have  
4 some effect in overcoming this but have you any basis  
5 for measuring just how much effect it would have?

6 If you know please say so because this is a very  
7 difficult question.

8 MR. FINLAYSON: No, I haven't.

9 MAYOR HORTON: I would not care to, I would not  
10 dare to.

11 COMMISSIONER PERRY: Unfortunately people do  
12 exaggerate the incentive effect income tax can give  
13 and it may be that the other difficulties would continue  
14 to remain the real difficulties.

15 MAYOR HORTON: I don't think there is much doubt  
16 that the three-year exemption has induced some mining  
17 operations to start but to pin it down statistically  
18 would be difficult.

19 THE CHAIRMAN: It would be interesting to know  
20 if the three-year exemption had induced mines to come.  
21 Perhaps the mines would have come anyhow.

22 COMMISSIONER PERRY: May be the mines are up  
23 here because there is not gold within fifty miles of  
24 Montreal or oil within fifty miles of Toronto. This is  
25 one of the most obscure questions, what effect taxation  
26 does really have.

27 That is all I have, Mr. Chairman.

28 THE CHAIRMAN: You have indicated that these  
29 Isolated Post Allowances represent differences in the  
30 cost of living and as such are a measure for reduced



1 taxation. May be that is so but I believe that these  
2 allowances are partly compensation for higher living cost  
3 and they are partly to induce people to leave their  
4 friends and backgrounds to take on these jobs.

5 I don't know how much is the one and how much  
6 is the other. I don't suppose you or anyone else knows  
7 that.

8 MR. FINLAYSON: No, that would be difficult to  
9 answer.

10 THE CHAIRMAN: There have been studies made of  
11 the differences in the cost of living, I presume.

12 MR. FINLAYSON: Yes. The Government Departments  
13 do a survey of the community every six months and these  
14 Northern Allowances have been changed at various times  
15 because of this survey.

16 THE CHAIRMAN: So they would have an idea?

17 MR. FINLAYSON: I believe they use the standard  
18 items in the Dominion Bureau of Statistics figures.

19 THE CHAIRMAN: What are the prospects on a fish  
20 processing plant or fur garment industry? I see they  
21 are indicated as possibilities with the right tax  
22 incentives.

23 MR. FINLAYSON: We have hopes that there will be  
24 a fish packing plant in Yellowknife within the next  
25 several months.

26 THE CHAIRMAN: Do I understand that an attempt  
27 is being made in that regard in this part?

28 MR. FINLAYSON: There is quite a heavy  
29 commercial fishing industry based chiefly in Hay River.  
30 They take out seven million pounds of fish a year in this



1 area, chiefly from Great Slave Lake.

2 THE CHAIRMAN: That is not packed?

3 MR. FINLAYSON: It is filetted and frozen and  
4 shipped. It is not canned or treated in any other way.

5 THE CHAIRMAN: Why would that not have occurred?  
6 Is it just as cheap to ship in the filetted-frozen stage  
7 as it is canned and therefore more economical to can  
8 it south than it is here?

9 MR. FINLAYSON: No, it is not canned. The bulk  
10 of our fish in this area goes to the Chicago and New York  
11 market. They want fresh fish and the quotas in the lakes  
12 have not been taken for several years. Possibly there is  
13 not the market to take the quotas that are set by the  
14 Dominion Fisheries.

15 THE CHAIRMAN: Of course you are competing  
16 against very low cost areas which are supplying parts of  
17 Canada -- the Atlantic Coast.

18 MR. FINLAYSON: Yes.

19 COMMISSIONER PERRY: It has been indicated to  
20 us that these documents relating to the Isolation  
21 Allowances are fairly common information and have been  
22 requested by the Unions in this neighbourhood for the  
23 purpose of negotiating with employers. Would you have any  
24 experience that would indicate whether that is true or  
25 not?

26 MR. FINLAYSON: You mean whether they have been  
27 withheld?

28 COMMISSIONER PERRY: We understand they have  
29 been given out.

30 MR. FINLAYSON: Yes, they are available.



1 COMMISSIONER PERRY: And are used for this  
2 purpose?

3 MR. FINLAYSON: Yes.

4 COMMISSIONER PERRY: For renegotiation of wage  
5 contracts?

6 MR. FINLAYSON: Yes. We listed the pages and  
7 so on that we used. We had no trouble in getting a copy  
8 of this.

9 THE CHAIRMAN: I didn't fully understand  
10 Schedule 5.

11 COMMISSIONER PERRY: I don't think there is much  
12 in the brief that bears on Schedule 5.

13 THE CHAIRMAN: The last one I found quite  
14 difficult. The first figure is a correct figure. I am  
15 able to verify that quite easily. That is \$1,098. The  
16 \$696. is the Isolation Allowance and then the  
17 supplementary allowance - Food provided to a maximum of  
18 \$135. a month.

19 Where does that come from?

20 MR. FINLAYSON: The Department of Transport  
21 employees are allowed to sign bills at the local  
22 restaurant up to that amount.

23 THE CHAIRMAN: They are fed at the expense of  
24 their employers up to that amount, likewise they are  
25 provided with room up to \$40. a month?

26 MR. FINLAYSON: Yes.

27 THE CHAIRMAN: These are people in transit?

28 MR. FINLAYSON: No, single resident employees.

29 THE CHAIRMAN: Employees of all Government  
30 Departments?



1 MR. FINLAYSON: We didn't have this for the  
2 Department of Northern Affairs. We used the Department  
3 of Transport figures on this.

4 THE CHAIRMAN: Then \$77. per month or maximum  
5 "subsidy"...

6 MR. FINLAYSON: That is what is charged to them  
7 for their board and lodging.

8 THE CHAIRMAN: He is allowed to spend \$2,100.  
9 but he has to pay \$1,176.?

10 MR. FINLAYSON: Yes.

11 THE CHAIRMAN: In fact he subsidizes the  
12 difference between the two?

13 MR. FINLAYSON: Yes.

14 THE CHAIRMAN: The tax saving is the difference  
15 between what he does pay and what he would have paid if  
16 he did not receive the benefits.

17 COMMISSIONER WALLS: It is the tax on the  
18 difference between \$2,100. and \$1,100.

19 THE CHAIRMAN: If it is twenty per cent it is  
20 twenty per cent of \$1,176.?

21 COMMISSIONER WALLS: Yes, you are right.

22 THE CHAIRMAN: \$1,176. is \$2,100. minus \$924.,  
23 which is \$77. times twelve?

24 MR. FINLAYSON: That is right.

25 THE CHAIRMAN: He is assuming more intelligence  
26 on the part of this Commission than they are displaying!

27 MR. FINLAYSON: The \$235. is income tax saving  
28 on this amount.

29 THE CHAIRMAN: Thank you very much. I think  
30 that explains that schedule. I think that probably



1 completes our questioning. That gives us some  
2 understanding of what your problems here are. You have  
3 told us some of your troubles and what you see by way  
4 of solution. I assure you that we will continue to  
5 consider what you put before us. We will weigh this up  
6 in the light of everything else we have for all of  
7 Canada. We will certainly bear in mind the problems of  
8 this part. Thank you very much for appearing before us  
9 today and being so helpful.

10 THE SECRETARY: Mr. Chairman, on June 18th we  
11 received a brief in the head office of the Royal  
12 Commission in Ottawa presented by Doctors Case and  
13 Powell of Yellowknife. Dr. Lloyd G. Powell is here this  
14 afternoon to speak to the brief and with him are his  
15 two medical associates. Dr. Case is not present. I  
16 would like to enter this brief into the record as Exhibit  
17 Number 99.

18 EXHIBIT 99: Brief submitted by Doctors Case and  
19 Powell of Yellowknife.

20 Submission

21 by

22 Drs. Case and Powell

23 Yellowknife, N.W.T.

24 A P P E A R A N C E S:

25 Dr. L. G. Powell

26 Dr. G. S. Battersby

27 Dr. P. O'Donaghue

28 THE CHAIRMAN: Good-day Dr. Powell. We have  
29 read your submission with considerable interest. Would  
30



1 you tell us a little bit about your practice in this  
2 part of the world. Are you accompanied by two other  
3 Doctors because you practise together in the form of a  
4 clinic?

5 DR. POWELL: Yes. We are in a group practice  
6 here in Yellowknife on contracts to the mines for services  
7 to their miners and we also have a private practice to  
8 the general community. We find in group practice we are  
9 able to provide a better service to the community.

10 THE CHAIRMAN: In this area how many Doctors  
11 would there be altogether?

12 DR. POWELL: Three Doctors in the immediate  
13 vicinity.

14 THE CHAIRMAN: For about four thousand people?

15 DR. POWELL: Yes, just about four thousand.

16 THE CHAIRMAN: And therefore all the Doctors  
17 in this area practise in a group?

18 DR. POWELL: That is correct.

19 THE CHAIRMAN: Now if you would care to speak to  
20 what you put before us we would be very glad to hear you.

21 DR. POWELL: First of all, Mr. Chairman and  
22 Members of the Commission, I would like to apologize for  
23 Dr. Case's absence. He has left the practice and seen  
24 fit to flee from the northern climes to Toronto. In his  
25 place my colleagues will represent him, Doctors  
26 O'Donaghue and Battersby.

27 As you have already got the brief, which is  
28 mainly from the pen of Dr. Case who has left the community,  
29 we are at your disposal for further questioning in  
30 regard to this.



1 THE CHAIRMAN: You support the brief, I take it.  
2 You say it is written by Dr. Case. He wrote the brief  
3 and cleared away...I was wondering if there was anything  
4 to be read into that?

5 DR. POWELL: Yes we support him one hundred  
6 per cent. It is a very well written document.

7 COMMISSIONER WALLS: As you will realize, Doctor,  
8 your representations follow rather closely all those of  
9 the preceding brief. I want to congratulate you. The  
10 whole of the north country are probably the most uniform  
11 thinkers of any place we have been. It is a change to  
12 have everybody pretty well asking for the same thing.

13 Certain Companies apparently have to offer an  
14 Isolated Post Allowance to get people to come into the  
15 north. Now what about a self-employed person like  
16 yourself without that inducement? What persuasion induced  
17 you to come here? It would seem to me that you either  
18 prefer to live in the north of that you can make a better  
19 income in the north than you would make elsewhere.

20 DR. POWELL: This is often a very difficult  
21 question to answer. On coming ~~here~~ I thought I would be  
22 here six months to a year. When I first thought of coming  
23 here I was thinking of specializing and coming up here  
24 for a short while and leaving. As it turned out the  
25 Doctors Fitch and Case were here at the time and Dr. Fitch  
26 left the practice just about then and I took over his  
27 share of the practice and found that I didn't think I  
28 would leave just now for a while anyway.

29 COMMISSIONER WALLS: So it is in your case those  
30 circumstances rather than a desire to live in the north or



1 the fact that you can make a larger income in the north  
2 Is that right?

3 DR. POWELL: I would say I am already established  
4 in the north for purely accidental reasons and I would  
5 hate to uproot myself and I would hate to set up a  
6 practice equal to what I am earning in the north.

7 COMMISSIONER WALLS: What do you think about  
8 most self-employed people here? What do you think is  
9 their reason for being here? If you have such  
10 disadvantages as against civil servants in regard to  
11 allowances there must be something that compensates and  
12 makes it worthwhile. Why do the self-employed people  
13 come here and want to stay here?

14 DR. POWELL: I think on the whole you can say  
15 that the salaries are slightly higher than outside but it  
16 is a false image. The purchasing power of the dollar  
17 spent in the north is nearly half what it would purchase  
18 outside. The cost of living in the north will vary from  
19 1.5 to 2 per cent over what it is, say, in Eastern Canada;  
20 at least twice what it is in Eastern Canada. So you can  
21 be fooled into coming here and into thinking you are making  
22 so much more money and you will save a lot more. It is a  
23 false pretence. I have known folks who have been here and  
24 were not able to get out because it was difficult finding  
25 the fare out.

26 COMMISSIONER WALLS: Would you not say, whether  
27 it happens to be a self-employed person or a union member  
28 at the mine, that in every case the income return to some  
29 degree is based on the Isolated Post Allowance that the  
30 Civil Service get?



1 If the Union is negotiating a wage scale here  
2 would they not of necessity use the fact they should get  
3 a wage based on the fact that the Civil Service get an  
4 allowance here. By the same token does not the self-  
5 employed person get more revenue to compensate?

6 DR. POWELL: As I said, I would agree that the  
7 revenue is a bit higher in salaries but this is taxable  
8 revenue on the whole whereas theirs is only half taxable.

9 COMMISSIONER WALLS: I see. That is a good point.

10 COMMISSIONER PERRY: If the situations were  
11 changed for the Civil Service and all of their allowances  
12 were to be made taxable would you contemplate that they  
13 would qualify for the increased exemption as well as the  
14 non-Civil Service?

15 DR. POWELL: I don't know if we were misunderstood  
16 in the brief. I do think if they were disallowed these  
17 privileges their income tax exemptions would also have to  
18 be increased to bring their standard of living up.

19 COMMISSIONER PERRY: What do you regard as  
20 "privileges"? Is it everything they get over the basic  
21 salary?

22 DR. POWELL: Yes, I think we calculated that here.  
23 The average person would have to earn about \$5,600. more  
24 per annum than the Civil Servant to equal his living in  
25 the north. Three points are mentioned: Northern allowance,  
26 housing subsidies, and transportation allowances. That  
27 is how those figures are arrived at. If any of those  
28 figures are wrong you can correct me on this.

29 COMMISSIONER PERRY: I am not worrying about  
30 figures. I imagine you were in the room when I made the



1 point about the fact that the increased allowance here,  
2 particularly in the form of the Isolation Allowances,  
3 reflects the fact that Civil Service salaries are  
4 national salaries and they cannot bargain with local  
5 employers. All this does is bring the basic salary up  
6 to what it would be if he were able to so bargain. To  
7 that extent we might say this is not really a privileged  
8 position, is just a position adjusted to the average  
9 local level.

10 DR. POWELL: That is correct.

11 COMMISSIONER PERRY: I would think one would  
12 have to say the housing allowance is in a different  
13 category, if for no other reason than it is tax empt.

14 My original question was: If one assumed that  
15 all these things were to be taxable to the civil servant  
16 should the civil servant then be allowed the increased  
17 income tax exemption that everyone else would have?

18 DR. POWELL: I think he should be allowed the  
19 increase.

20 THE CHAIRMAN: I am a little confused. We start  
21 off by having attention drawn to the Crown subsidies to  
22 civil servants in the north and you suggest that tax  
23 exemptions in lieu of the subsidies would put private  
24 citizens and civil servants on a more equal basis. I  
25 think that I understand that in a broad way.

26 Of course, tax incentives, by virtue of the  
27 increased exemptions, which I think is your proposal,  
28 would never really put them completely on the same basis  
29 I think the only way would be to subsidize the people who  
30 are not



1 in the Civil Service. I am wondering if the civil  
2 servants look like the wealthy part of the community?

3 DR. POWELL: I think if you visited an average  
4 person in Yellowknife and saw his home and then proceeded  
5 to a Civil Service home where the man was earning about  
6 the same salary you would see a marked difference in the  
7 standard of living in the home of the civil servant. He  
8 lives in a fairly decent fashion with decent furniture,  
9 just as good as you would have in southern Canada as a  
10 civil servant and as a person should normally live.

11 The average middle class person earning a reasonable  
12 salary cannot afford to fix his home like this in the  
13 north. It costs too much.

14 COMMISSIONER WALLS: Is that factor not one of  
15 lack of permanence? I can understand that these homes  
16 built by the Government for civil servants would be  
17 amaintained. In a new country is there not a feeling of  
18 impermanence that discourages other people from spending  
19 money ontheir homes? Would that not be a partial reason  
20 why one home was fixed up better than the other?

21 DR. POWELL: This is very true. However, if a  
22 tax incentive was allowed it would help speed development  
23 of the north and help make things more permanent so these  
24 uncertainties would become less and less.

25 THE CHAIRMAN: I would refer you to the sentence  
26 in the brief which reads:

27 "I submit to you that the provision of an  
28 appropriately large measure of tax relief to all  
29 northerners is the only possible method of  
30 providing economic equality to all citizens of the



1 north."

2 I am not very sure what the next sentence means:  
3 "This would, of course, be followed by elimination  
4 of various taxed and untaxed northern allowances  
5 received by the "have" or civil service group."

6 I gather you propose not only that the tax  
7 deductions be increased but that the allowances to the  
8 Civil Service should be limited?

9 DR. POWELL: Well, this is the general idea.  
10 Civil servants at present are attracted here on the basis  
11 of making them equal to their southern civil servants by  
12 giving them certain benefits. If you are going to give  
13 them income tax deductions along with the rest of the  
14 population then I would consider it unnecessary to continue  
15 these special allowances.

16 THE CHAIRMAN: There is a vast difference between  
17 an income tax deduction and a subsidy. Your subsidy is  
18 one hundred per cent whereas the income tax deduction is  
19 somewhere perhaps about twenty-five or thirty per cent.

20 DR. POWELL: An adjustable figure could be  
21 arrived at.

22 THE CHAIRMAN: Instead of "elimination" we could  
23 use the word "reduction". The substance of that  
24 paragraph is that there really is a great deal of  
25 inequality between the "haves" and the "have-nots" and by  
26 one way or another you believe that should be brought  
27 together.

28 DR. POWELL: I don't think it is so much the  
29 inequality as the fact that the cost of living is such a  
30 burden in the north for one group. It forces the average



1 person to sub-standard living. We just want to bring up  
2 the sub-standard "have-nots" to the standards of the  
3 Civil Service, who have really a very average condition.

4 THE CHAIRMAN: I read your second sentence as  
5 bringing down the "haves".

6 DR. POWELL: I think if we cancel the word  
7 "elimination" and use "reduction".

8 THE CHAIRMAN: Then you are agreeing with my last  
9 proposal.

10 COMMISSIONER PERRY: Don't you think you would  
11 still have a case to make if there were no civil servants  
12 here at all?

13 DR. POWELL: Yes, most decidedly. We are only  
14 using the thinking the Government has used in attracting  
15 civil servants to the north. This is the only argument  
16 why we have used the Civil Service as an example.

17 COMMISSIONER WALLS: I note that while you talk  
18 about giving a tax incentive, nowhere in your brief do you  
19 suggest any thinking as to what that incentive should be.  
20 Have you any recommendation?

21 DR. POWELL: We haven't thought much about it.  
22 We thought you might come up with something. About the  
23 most important thing in the development of the north is  
24 people. The more people you can get to the north the more  
25 prosperity; not necessarily more prosperity but the cheaper  
26 things will become. If a tax incentive is based on a  
27 per capita basis and the individual given a tax incentive  
28 and the bigger the family the more reduction he would get..  
29 I think this sort of thing plus the establishment of  
30 businesses....say seven year tax relief.



1 COMMISSIONER WALLS: Seven year?

2 DR. POWELL: I am using that figure for no good  
3 reason. It seems that this is about the time, the first  
4 few years, when most businesses lose a lot of money.

5 COMMISSIONER PERRY: Would you concede this to  
6 a new medical clinic in town?

7 DR. POWELL: We don't say it in a personal  
8 manner. Certainly if this could help and a new medical  
9 clinic could be established....However, the building of  
10 a new clinic has certain uncertainties. If there is any  
11 one of us here who would want to put this money out to  
12 build a clinic in an uncertain town; if we were sure it  
13 would last for a certain time, we would want to do it.  
14 A tax incentive could help us.

15 COMMISSIONER WALLS: Your two lines of thinking  
16 would be: You would increase the family exemptions  
17 under private income tax and you would extend the tax  
18 holiday or create a tax holiday in line with what is  
19 given to the mines to other businesses. You would not  
20 stop at secondary businesses. You would suggest this be  
21 applied to all types of businesses, such as a medical  
22 clinic.

23 DR. POWELL: As I mentioned I didn't do much  
24 thinking along this line. I am not going to classify what  
25 type of businesses.

26 COMMISSIONER WALLS: Thank you.

27 THE CHAIRMAN: Thank you, Doctors. I don't  
28 think we have any more questions to put to you. You have  
29 been very helpful indeed, Dr. Powell. We will consider  
30 what you have said to us. We don't have many Doctors



1 come before the Commission. We have had some Associations  
2 but not individuals. Thank you very much indeed.

3 THE SECRETARY: Mr. Chairman, the third brief  
4 this afternoon is from the Citizen's Committee of Norman  
5 Wells. The Citizen's Committee forwarded their brief  
6 to us on June 27th. It was signed by Mr. E. Monaghan,  
7 Chairman. To represent the citizens of Norman Wells this  
8 afternoon is Mrs. Morgan and she comes to speak to the  
9 brief which I now enter into the record as Exhibit 100.

10 EXHIBIT 100: Brief submitted by Citizen's  
11 Committee of Norman Wells.

12 Submission

13  
14 by

15 The Citizen's Committee of Norman Wells  
16

17 A P P E A R A N C E S:

18 Mrs. Morgan.

19 THE CHAIRMAN: Good afternoon, Mrs. Morgan. It  
20 is very kind of you to come and see us. We know you have  
21 come a long way. We are very interested in what you  
22 have put before us. Before we get to the brief I would  
23 appreciate knowing a little more about Norman Wells  
24 and its Citizen's Committee. I think I associate oil with  
25 Norman Wells but I know very little about who owns the  
26 oil wells or if it is an expanding community. Would  
27 you tell us about Norman Wells?

28 MRS. MORGAN: It was started as an Imperial Oil  
29 town with a small refinery. At one time most of the town  
30



1 was Company employed, now there are just about as many  
2 Government employees. The refinery operates all winter  
3 preparing the product to be shipped in the summer by  
4 barge. We even have some wells on an island two and a  
5 half miles across the river.

6 THE CHAIRMAN: Is that the Mackenzie River?

7 MRS. MORGAN: Yes. In the summer they barge  
8 the crude to be refined and in the winter run a pipeline  
9 across.

10 There are about three hundred people there now.  
11 Of course a few years ago there was no school and no  
12 children. Now there are about sixty children and about  
13 twenty-five go to school this year. About two years ago  
14 they built a new school and this year they are expanding  
15 by putting a room in. It seems to be becoming a family  
16 town.

17 THE CHAIRMAN: Would there be other Companies  
18 besides Imperial Oil exploring there?

19 MRS. MORGAN: Not right at Norman Wells. There  
20 is a lot of exploration around it. Shell Oil was there  
21 a few years ago and Geophysical Associates are not too  
22 far from Canol, which the Americans built. They are  
23 drilling west of Fort Good Hope, the same place they were  
24 last winter.

25 THE CHAIRMAN: Now your Citizen's Committee is  
26 concerned about personal taxes?

27 MRS. MORGAN: Yes.

28 THE CHAIRMAN: How about the development of  
29 business in that area? I suppose most business in that  
30 area is actually serving the community who are employed by



1 Imperial Oil. Is that right?

2 MRS. MORGAN: P.W.A. has a small establishment  
3 there. I imagine there would be room for some private  
4 enterprise in the form of a hotel. We only have one  
5 Company store. Other people bring their supplies by  
6 barge in the summer time. You buy a year's supply and  
7 you have to leave....I don't know what they do with the  
8 supplies. I think recently they have it so the Government  
9 brings in so many rations and as new employees are  
10 transferred the next employees take over.

11 THE CHAIRMAN: Would you like to speak to any  
12 of the points in the submission you have before us, which  
13 we have read. We would be glad to have you draw our  
14 attention to anything.

15 MRS. MORGAN: In addition to this we felt  
16 that private enterprise and more industries and people  
17 should be induced to come to the north to develop it  
18 quicker. The native population is increasing quite  
19 rapidly and very soon, I imagine, the natives won't be  
20 able to live off the land as they have done. If there  
21 were more industries and jobs available then these natives  
22 would be able to earn their way rather than becoming  
23 wards of the country, which lots of them are now.  
24 In the case of the natives sometimes they may have two or  
25 three bad years in the hunting and trapping and not be  
26 able to pay income tax. They probably do not have enough  
27 to get by on. If they have a good year they are still  
28 taxed just like the rest of the Canadians.

29 THE CHAIRMAN: Is it suggested that should be  
30 averaged?



1 MRS. MORGAN: Yes, I would think so...We had  
2 rather a rush to get this brief to you in the first place.

3 THE CHAIRMAN: I would think there might be a  
4 case to be made for averaging trappers' and hunters'  
5 income like farmers and fishermen.

6 MRS. MORGAN: Another thing is medical expenses.  
7 In Norman Wells our Company has a hospital. In a place  
8 like Fort Franklin, Fort Norman, or Good Hope if someone  
9 is sick they have to be transported, may be to Norman  
10 Wells or may be Edmonton depending on the facilities or  
11 the case. Most of the time I believe the individual has  
12 to pay this cost and air transport is very expensive,  
13 particularly when you have to charter a plane to come and  
14 take you out. Some of the places don't have a hospital,  
15 some don't even have a nursing station so you just have  
16 to be healthy. Dental care is another thing most people  
17 try to have looked after on vacation but a lot of people,  
18 the natives and old-timers, don't go out every year. We  
19 approached a dentist from Edmonton to come to Norman  
20 Wells to look after the dental work. It proved quite  
21 popular. He had to charge more for his rates because he  
22 had to transport his equipment up there and pay his own  
23 transportation. Everything is more expensive than ever.

24 THE CHAIRMAN: Are those tax matters?

25 MRS. MORGAN: Well, if we had lower...possibly no  
26 income tax to pay it would help to cover these things.  
27 This is another added expense.

28 THE CHAIRMAN: It would help the people who are  
29 paying taxes but not the people who are not earning enough  
30 money to pay taxes.



1 MRS. MORGAN: That is right. Another thing is.  
2 the high postal rates. Norman Wells is \$1.00 a pound  
3 for parcels coming in and you do a lot of shopping by  
4 mail. You can't buy a whole year's clothes. You have  
5 to bring them in and it is very expensive.

6 THE CHAIRMAN: And they must come in by air?

7 MRS. MORGAN: Yes. That is about all I have,  
8 thank you.

9 THE CHAIRMAN: Thank you.

10 COMMISSIONER WALLS: What is the extent of the  
11 relationship of the Imperial Oil employees at Norman  
12 Wells with the wage scale that is paid to ~~their~~ employees  
13 at IOCA? Do the Imperial Oil give you an Isolated Post  
14 Allowance over and above their wage scale that is  
15 prevalent in their other plants?

16 MRS. MORGAN: Yes, they do. Single employees or  
17 people who do not have families live in dormitories and  
18 eat in the mess hall and they get free room and board.  
19 A married man is allowed \$75. a month to cover his not  
20 eating in the mess hall and then they supply the  
21 accommodation. It is for nothing too.

22 COMMISSIONER WALLS: In other words, as far as  
23 you know for a like type of occupation the Imperial Oil  
24 employee at Norman Wells would receive more money than he  
25 would if working for Imperial Oil at the Coast?

26 MRS. MORGAN: I am not too sure. I believe  
27 they have Company houses there but whether they pay rent  
28 or not I am not sure.

29 COMMISSIONER WALLS: Your brief is primarily  
30 dealing with alleviation of taxation to the individual



1 but one paragraph says:

2 "Taxation should not be a deterrent to those  
3 pioneering Northern Development - but unfortunately,  
4 under existing conditions it is."

5 To what extent does income tax stop people from  
6 coming to the north? Do you not really mean you would  
7 like taxation concessions to encourage industry to come  
8 to the north?

9 MRS. MORGAN: Well, they feel that if the  
10 Companies now get an allowance for being in this part of  
11 the country because it is a new country, they feel they  
12 will be able to get a better class of employee up here.  
13 It will just be a better incentive to come.

14 COMMISSIONER WALLS: So you are really referring  
15 to the individual and you say that he should get a  
16 concession to come to the north?

17 MRS. MORGAN: Yes.

18 COMMISSIONER WALLS: Do you really think, as  
19 you state here, that taxation has kept any man who wanted  
20 to from coming into the north?

21 MRS. MORGAN: I don't imagine so but the high  
22 cost of living makes him think twice about coming and  
23 staying.

24 COMMISSIONER WALLS: You refer to the extra heavy  
25 cost of clothing. Surely your climate here is no worse  
26 than you will find in Winnipeg or other parts of Canada?

27 MRS. MORGAN: I have never lived in Winnipeg.  
28 I couldn't say.

29 COMMISSIONER WALLS: Is this matter of clothing  
30



1 not something common to great parts of Canada outside of  
2 the Northwest Territories and outside of Norman Wells?

3 MRS. MORGAN: I imagine it would be the same.  
4 Of course the working men who worked outside, particularly  
5 as they did on the DEW lines, they were shipping drums  
6 in fifty degrees below zero with wind and so on. They  
7 would have to have more than one parka. You couldn't  
8 rush down and buy another one any place or any time.

9 COMMISSIONER WALLS: I notice in your brief you  
10 make reference to the fact that you do not have a dairy  
11 subsidy here. What price is butter in Norman Wells?

12 MRS. MORGAN: About eight-five cents a pound.

13 COMMISSIONER WALLS: That must be the cost of  
14 transportation between here and Norman Wells. According  
15 to the figures we have butter is selling here as low as  
16 sixty-three cents a pound. The only subsidy paid is the  
17 consumer subsidy of twelve or fourteen cents. The only  
18 difference there should be between any part of Canada is  
19 the transportation cost.

20 MRS. MORGAN: This happens to be a Company store  
21 but I think it is closer to one dollar in the Hudson Bay  
22 stores in Fort Norman and Fort Good Hope.

23 COMMISSIONER PERRY: The very last paragraph of  
24 your brief introduces what seems to be a new thought.  
25 You say that it is a fairer principle to tax spending  
26 rather than income. I was wondering whether this leads  
27 into a specific proposal? There is no proposal in the  
28 brief for taxes on spending.

29 MRS. MORGAN: I am afraid I can't answer that.  
30



1 THE CHAIRMAN: Who is Mr. Monaghan?

2 MRS. MORGAN: He is the Chairman of the Committee.  
3 He is one of our pump engagers.

4 THE CHAIRMAN: It is his idea he prefers sales  
5 tax to income tax?

6 MRS. MORGAN: It sort of looks that way.

7 COMMISSIONER PERRY: I think he needed another  
8 paragraph there to explain what he meant. Just as a  
9 matter of information, the exemption that is referred to  
10 for coal mines for five years is intended, I believe, to  
11 refer to the general exemption for any mine, which is  
12 for three years. This is towards the bottom of page 2.  
13 There is an exemption for all new mines for the first  
14 three years. I imagine this is the point which Mr.  
15 Monaghan had in mind.

16 That is all, Mr. Chairman.

17 THE CHAIRMAN: I would be interested in knowing  
18 more about the trappers and hunters. I wonder how many  
19 of them are taxable. Particularly what I am interested  
20 in is the need to average their income. You spoke of that.  
21 You said some years were lean and some years were fat and  
22 it seems unfair when they get taxed on the fat years. I  
23 must say I am very sympathetic to it if that is the case.  
24 If that appeals to you as a significant problem if you  
25 would care to write to us when you get home I would be  
26 glad to hear from you.

27 COMMISSIONER PERRY: Are most of the trappers and  
28 hunters not occupied at some other type of work part of  
29 the year?

30 MRS. MORGAN: They are around Norman Wells but



1 I don't think they are in most of the other settlements.  
2 There's not enough to do really, no place to work.

3 THE CHAIRMAN: That is all our questions. Is  
4 there anything you wish to say to us before we wind up?

5 MRS. MORGAN: No, I don't think so.

6 THE CHAIRMAN: We are grateful indeed for you  
7 going to the trouble of appearing before us today. It  
8 has been extremely helpful to hear from somebody from  
9 your part of the world. I am only sorry we are not going  
10 up there. The next best thing is to have somebody come  
11 to us. Clearly we would not have covered Canada without  
12 hearing about the problems of this part and your part.  
13 Thank you very much indeed.

14 Mr. Secretary, is there anything else?

15 THE SECRETARY: Not this afternoon. Tomorrow  
16 morning at 9:30 a. m. we will hear a brief from Mr.  
17 Sivertz, the Commissioner of the Northwest Territories.  
18 Following that I would like to enter into the record a  
19 brief received from Inuvik and the Western Arctic  
20 Development Association.

21 THE CHAIRMAN: We will stand over until 9:30  
22 tomorrow morning.

23 ---- The hearings were adjourned to resume at 9:30 a.m.  
24 on July 25th, 1963.

25  
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1 --- Upon resuming at 9:30 a.m. on July 25th, 1963,  
2 at the Court House, Yellowknife, Northwest Territories.

3 THE CHAIRMAN: Mr. Secretary, I think we will  
4 commence.

5 THE SECRETARY: Mr. Chairman and Commissioners,  
6 before we hear from Mr. Sivertz I would like to enter  
7 into the record as Exhibit 101 a brief from Inuvik and  
8 Western Arctic Development Association. This brief was  
9 received in our office on July 15th. Unfortunately the  
10 Secretary could not be here and he asked if we would  
11 enter it into the record and look at their brief without  
12 their presence.

13 THE CHAIRMAN: Thank you, Mr. Secretary.

14 EXHIBIT 101: Brief submitted by Inuvik and  
15 Western Arctic Development  
Association.

16 THE SECRETARY: We now have a brief being  
17 presented by Mr. B. G. Sivertz, the Commissioner of the  
18 Northwest Territories. I would like to enter this brief  
19 into the records as Exhibit 102. Mr. Sivertz is here to  
20 speak to the brief.

21 EXHIBIT 102: Brief submitted by the Commissioner  
22 of the Northwest Territories.

23 Submission

24 by

25  
26 The Commissioner of the Northwest Territories

27 A P P E A R A N C E S :

28 Mr. B. G. Sivertz  
29  
30



1 THE CHAIRMAN: Good morning, Mr. Commissioner  
2 Sivertz. Thank you for being here today. We have  
3 read your submissions dealing with incentives to the  
4 development of the resources of the north, primarily  
5 directed to business rather than individuals. Yesterday  
6 I would say that we dealt more with individuals. I  
7 think this is well balanced.

8 Should you wish to speak to it we would be very  
9 glad to hear anything you may have to say and we will  
10 have a number of questions. We would prefer to deal with  
11 our questions after you have said whatever you are  
12 pleased to say. Please consider this to be fairly  
13 informal and don't bother standing unless you wish to do  
14 so.

15 COMMISSIONER SIVERTZ: Mr. Chairman and  
16 Commissioners, in presenting this brief I wish to express  
17 my appreciation on behalf of the Council of the Northwest  
18 Territories to the Royal Commission for coming into the  
19 Territories to sit and receive submissions and gain an  
20 appreciation of what the settlements and the countryside  
21 is actually like.

22 In Canada north of the sixtieth parallel there  
23 is something like forty per cent of the land area of the  
24 nation. This is a section of Canada that is in the  
25 exploration stage. If this seems to be a startling  
26 statement I suggest that the Commissioners note that  
27 notwithstanding the fact that the coast lines, rivers,  
28 and lakes are pretty well outlined in the map this is an  
29 occurrence only since the War. Previous to that very  
30 large land masses, islands as large as Vancouver Island,



1 were totally unknown. It was discovered by aerial  
2 photography which also discovered to us all of the lakes  
3 of the Keewatin Region. We now have maps that enable us  
4 to traverse the lands accurately whereas before the War  
5 the flyers going over the country were dependent entirely  
6 upon their compass courses and these were invariably  
7 unreliable because of the proximity of the magnetic pole.

8 Since the War the outlines have become delineated  
9 by physical exploration, exploration in the geological  
10 sense. The inventory of what wealth there might lie in  
11 these lands has only barely been touched. It is going  
12 forward at a rapid rate in one sense in that there are  
13 a large number of geological survey parties which go out  
14 each year and there are topographical and hydrographic  
15 surveys. Compared to the large volume of work to be done  
16 this is rather slow. This will not be accomplished for  
17 perhaps a quarter of a century if it is carried on at the  
18 rate it is now being done.

19 As is apparent from the policies of this  
20 Government and its predecessors in office the Government  
21 is determined to regard it as an investment stage whereby  
22 the Government is doing the exploration work, this general  
23 inventory, and it is also at the same time laying the  
24 groundwork for the entry of private capital. It is by  
25 means of private investment that the Government conceives  
26 of development of whatever wealth there is in the  
27 northland.

28 For this purpose it has been going forward on  
29 truly a large scale with the development of communication  
30 services, weather meteorological reporting, and also



1 radio communications whereby we now see underway or  
2 completed reliable telegraphic and telephone networks  
3 running through the Yukon, through the Mackenzie and  
4 through the Arctic lands as well. These were non-existent  
5 and indeed are only under construction at present into  
6 some regions right now.

7 At the same time we have seen the extension of  
8 roadways; roads through the Yukon; roads through the  
9 Mackenzie. Now the City of Yellowknife is connected to  
10 the highway system of the North American continent.  
11 This is a major sort of challenge to a community  
12 formerly regarded as a place of isolation for the  
13 substantial winter period and connected by means of  
14 barge transportation during the summer. This has  
15 completely changed now throughout the north by the advent  
16 of scheduled airlines that extend right to the Arctic  
17 Coast and in the east to the Queen Elizabeth Islands.  
18 There is charter aeroplane service at many points in  
19 the northland so the Government can make use of the  
20 public transportation and so may all other potential  
21 users.

22 When I speak of the exploration stage I think  
23 of the term as preceding the development stage in the  
24 development of industry and that stage preceding the  
25 productive stage. The exploration stage then is one  
26 which is being watched by industry very closely and with  
27 great interest for there is the possibility of considerable  
28 mineral wealth in the northland. There is other wealth.  
29 There is the fur trade. It is not an inconsiderable  
30



1 thing and we believe it can be developed to a larger  
2 volume than at present. The mineral development of the  
3 north is the thing to which we must look as the source of  
4 the real wealth, and I include oil and gas.

5 I draw the attention of the Commissioners to the  
6 rocks which surround us in Yellowknife, the bare bald  
7 rocks referred to as the Pre-Cambrian Shield. They are  
8 old rocks with no fossils, no oil or gas because the  
9 formations were laid down before any living organisms  
10 grew on the face of the earth. They do, however, contain  
11 metallic mineral.

12 The Province of Ontario has quite a large area  
13 of Pre-Cambrian and from this area there is produced at  
14 the present time approximately one billion dollars worth  
15 of Canada's primary wealth, bright new metallic wealth.  
16 In the Northwest Territories there is nearly three times  
17 the area of Pre-Cambrian compared with Ontario.

18 Is it correct to assume the occurrence of  
19 metallic deposits equal in frequency in this uniform type  
20 of formation? I believe it is correct to assume that.  
21 If so is it correct to assume that given an equal level  
22 of development the Northwest Territories can be producing  
23 three billion dollars worth of mineral wealth from the  
24 Pre-Cambrian wealth? I think perhaps not because we have  
25 to observe that costs are somewhat higher in the north  
26 than in Ontario and therefore any given mineral deposits  
27 would have to be richer before it could be more profitably  
28 worked in the Northwest Territories than in Ontario.

29 Nevertheless the possibilities are very great  
30 indeed. I direct the Commissioners' attention to the



1 fact that even though costs are generally higher in the  
2 Northwest Territories this is not necessarily true in  
3 an absolute sense in all places. The west coast of  
4 Hudson Bay gives sea access for ocean-going shipping for  
5 a few months of the year to very large areas. There is a  
6 railway now under construction leading to the south shore  
7 of Great Slave Lake which will give rail transportation  
8 to all the shores of this great lake and therefore  
9 water borne transportation connected with the railway  
10 system of the continent is in prospect for the regions  
11 around here and the costs of operating in this northland  
12 need not be thought of as prohibitive in the sense that  
13 they are in very remote places where none of these  
14 facilities exist at all.

15 I suggest also the possibilities of the sedimentary  
16 lands of the Northwest Territories, which are also very  
17 large, for the production of oil and gas hold great promise.  
18 These lands lie through, generally speaking, the  
19 Mackenzie Valley, the Yukon, and the Northern Islands.  
20 They are an extension of the sedimentary lands of  
21 Mexico, the Central United States, and of Alberta. They  
22 lie over a basement of rocks in thickness varying from  
23 around five thousand feet to large areas where the  
24 thickness of the sediment is eleven thousand feet and in  
25 some places it reaches nineteen thousand feet in thickness.  
26 This makes northern Canada one of the large sedimentary  
27 basins of the world.

28 Applying a sort of statistical probability, as  
29 I did to the Pre-Cambrian rocks, and mentioning the  
30 production from Ontario and the potential production from



1 the northland, I suggest the propriety of assuming, as  
2 oil geologists do assume, that every sedimentary basin in  
3 the world has oil and gas. They even assume it has at  
4 least fifty thousand barrels per cubic mile. They also  
5 can assume a per barrel cost of finding oil in any given  
6 sedimentary basin, as has been worked out in the Sahara  
7 since the War. A planned program of oil finding produces  
8 oil.

9 If this oil can be so found, which I say is a  
10 foregone conclusion, then there is the question: Can it  
11 be brought to market? This is an exercise in efficiency  
12 and I suggest that the industries of Canada, the  
13 designers and engineers and construction people, need  
14 to exercise their talents in the Canadian north to become  
15 expert, to become excellent in Arctic operations. Canada  
16 can become, as she is by geography, one of the two  
17 great Arctic lands of the world. Canada can become a  
18 land where there are experts in Arctic operations and  
19 Canada can have the prospect of getting production costs  
20 from her northland down to the lowest possible levels  
21 with the greatest possible prospects of competition in the  
22 world markets.

23 In this exploration stage then it is the view of  
24 myself, and many others who are concerned with northern  
25 development, that the conditions should be created whereby  
26 the most valuable possible economic base can be put under  
27 the operation by Canada of her northlands.

28 There are various things that can be done along  
29 these lines. The beauties of this countryside are  
30 already exercising an attraction upon people interested



1 in recreation throughout the nation and indeed throughout  
2 the world. It is a frontier land full of extremely  
3 attractive places and exotic places to people who have  
4 never been into the Arctic regions before, or various  
5 other northland regions. As the population of the  
6 North American continent increases it is an absolute  
7 certainty that people will seek recreational uses and  
8 recreational activity to an increasing extent.

9 Perhaps I should not mention the other  
10 possibilities that we see in northern development that  
11 are lesser but concentrate upon the major, the mineral  
12 wealth. We see, as my brief points out, the desirability  
13 of creating conditions whereby industry can do the  
14 exploration and the development and revise the techniques  
15 for marketing in the world. The exercise of the ingenuity  
16 of the industrialists is the only means by which we have  
17 any hope of developing industry and an economy here that  
18 can live with these competitors in the open market.

19 I suggest that the opening of the north is  
20 perhaps not always clearly understood by people who read  
21 of the analogy between this operation and the opening of  
22 the West. The lands do not wait the plow. Subsistence  
23 farming, indeed if it is possible anywhere, is not really  
24 possible in the north except in a few small boxes along  
25 the river in the southern parts and along the river  
26 valleys. Communities such as you see here in Yellowknife  
27 in our opinion do represent the pattern of the north that  
28 can exist around an industrial complex and can be a source  
29 of employment and wealth and can also be filled with  
30 amenities and interest for the people who live there.



1 We are therefore of the opinion that the first  
2 consideration is creating of conditions whereby industry  
3 can come and do these three operations: exploration,  
4 development, and bringing into production of the  
5 resources that is the most interesting thing in its  
6 potential.

7 I thank you for hearing me, Mr. Chairman and  
8 Commissioners. I am ready to answer questions. I must  
9 explain to you that I did not come directly from my office  
10 and I am not prepared with the detailed statistics but  
11 I will endeavour to reply to your questions in a broad  
12 sense.

13 THE CHAIRMAN: Thank you very much, Mr.  
14 Commissioner. This is a thrilling and fascinating story  
15 and certainly represents a real challenge to the whole  
16 of Canada and we would like to ask you some questions  
17 about it.

18 It is always uncertain as to what can be done  
19 by way of taxation. Obviously some things can be done  
20 by taxes but they are no cure-all for everything. I  
21 would like to explore with you a little more your views  
22 in this particular area.

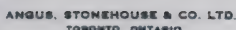
23 You have told us, and your brief tells us, of  
24 the immense strides which have occurred really since  
25 1955 by way of communications, transportation, and the  
26 opening up of the country. I was curious myself as to  
27 how far the Government's role extends in this connection.  
28 I know that some countries and areas have persons and a  
29 large budget devoted to developing the tourist trade.  
30 Others employ people to seek out and try and assist in



1 developing investment opportunities, encouraging people  
2 to take up investment opportunities.

3 I have heard it said that there is an  
4 opportunity in this country to further develop fish  
5 processing and the fabricating of furs in some manner.  
6 I was wondering whether the Government extended its  
7 operations to the point where it actually had any  
8 proposals it could put to people interested in that sort  
9 of thing, or if it sought out people and encouraged them  
10 to do that. Can you tell me how far the Government  
11 goes in that direction?

12 COMMISSIONER SIVERTZ: Yes, Mr. Chairman. First  
13 I should mention that the Government activities in the  
14 north are two-fold. One is the Federal, which it is  
15 carrying on in respect of geological and other surveys  
16 and also in respect of its responsibility for the Eskimo  
17 and Indian people. Parallel with this, and indeed using  
18 the same personnel of the Northern Administration Branch  
19 as does the Civil Service, the Government of the  
20 Northwest Territories discharges its responsibility.  
21 This is, therefore, a sort of matching operation. The  
22 Government of the Northwest Territories, being a  
23 territorial Government, is not able to assemble all of its  
24 financial requirements and is operating under financial  
25 help from the Federal Government organized by five year  
26 periods under a financial agreement. The current one is  
27 1962 - 1967, whereby the program of the Territorial  
28 Government is surveyed for those five years in advance.  
29 It is costed, its maximum possible revenues by its own  
30 means are forecast. After approving the program the



This is substantially the difference between a Province and a Territory and it is, in my opinion, the question of when this situation is no longer a necessity that the Northwest Territories could conceivably become a Province.

The Government does interest itself in the small industries, the improving of the fur trade and the smaller industries. Small industry, may I mention this, is well over a million dollars a year from a comparatively small population. There is an even smaller portion that is engaged in the trapping industry and the smaller sections of it that relate to handicraft and the manufacture of furs. The returns to the people of the northland could be greater if they did in fact process the skins and have them tanned and have them then manufactured into garments which would sell in the best markets of the world.

The same applies to fish. The production of fish is a possibility at many points. In the Arctic the growth rates are slow the farther north you go. A fish that would grow to maturity in the Fraser in four years grows to maturity in an Arctic River on Victoria Island in twenty years. The Fisheries Board advises us on what should be the quota that should be taken from the Arctic rivers and in part they are feeling their way.

The Government proposes to the people of the northland that they make the most efficient use of these



1 resources that they possibly can, which in some cases  
2 turns out to be the harvesting of these resources for  
3 local use. In other cases it turns out to be the  
4 harvesting for sale outside and a cash return. On these  
5 things the Government has been very thoughtful about  
6 providing men to study and manage and put underway and  
7 accordingly co-operatives have been formed for the  
8 management of production of fish, of handicraft, for the  
9 management of small logging operations, for the taking of  
10 seals and putting up of seal meat and indeed selling it  
11 to other communities, and for the building of houses by  
12 co-operative effort. These are the range of activities  
13 of some fourteen co-operatives that the Government has  
14 proposed to the Eskimo people on account of its  
15 responsibility for them.

16 The Government of the Northwest Territories is  
17 interested in seeing similar work done among the people  
18 who are not Eskimos or Indians.

19 I may say this is a development only of the  
20 past four years. It is only taking its first steps and  
21 appreciation of its position and potential position in  
22 the industry of the continent and the industry of the  
23 north particularly is only barely coming to the men and  
24 women concerned. It is part of an educational effort.  
25 We regard it as parallel to the effort of child  
26 education in the school.

27 We are undertaking adult education by means of  
28 inviting the adults into the classrooms and men and women  
29 past middle-age are learning to read and write in the  
30 schools of the north. They are gaining an appreciation



1 of what school is and what it can do for their children.  
2 It is a two-way street here. The children are conveying  
3 to their parents, as they rise through the grades of  
4 the school system, an appreciation of the fact that they  
5 have a life before them that the parents had not  
6 understood very clearly. The parents are curious about  
7 this and are coming to the school. This is happening  
8 in a number of places through the north this past year  
9 for the first time.

10 In the matter of tourism the Northwest  
11 Territories tourist office had its birth two and a half  
12 years ago and the Northwest Territories Tourist  
13 Association, which has its headquarters in Yellowknife,  
14 came into being as a vigorous institution and it is  
15 seeing now the results from its very modest advertising  
16 efforts.

17 THE CHAIRMAN: That is most encouraging indeed.  
18 I hope many Canadians will have the advantage of seeing  
19 what we have seen in these two days. It is a truly  
20 magnificent country.

21 COMMISSIONER PERRY: Mr. Sivertz, in the brief  
22 you give some figures on exploration expenditures, which  
23 I find on page 6. This refers to expenditures by  
24 industry. I have gone through your appendices and I  
25 don't find any references to geophysical or topography  
26 work that the Government itself has been doing. I was  
27 wondering how significant it would be in relation to  
28 the expenditures by private enterprise on exploration,  
29 which I assume is a later stage of activity.

30 COMMISSIONER SIVERTZ: There is a fifty-four



1 million dollar total in the first table of Statistical  
2 Appendices...As I said, I don't have the data before me  
3 and in any case these are expenditures for several  
4 Departments of the Federal Government. I have this  
5 material in Ottawa fairly ready to assemble and I could  
6 supply you with it if you would wish to have it.

7 In the meantime I can give you a rough  
8 approximation. I would say that starting in 1952 that  
9 the Government expenditures in this field were very  
10 substantially higher than this one hundred and fifty-six  
11 thousand dollars annually. I would say that by 1952 they  
12 had probably reached four or five million. I would say  
13 that they have not risen as rapidly as these figures  
14 have risen in the meantime but they have risen a little  
15 bit.

16 The Government statistics on this are a little  
17 bit difficult to handle. For instance, the construction  
18 of hydrographic surveys, there have been two of them,  
19 six and seven million dollar items. These come out in  
20 one annual expenditure item or two and are charged then  
21 to the Department of Mines and technical surveys for  
22 Arctic hydrographic survey work.

23 It would be my estimate that perhaps it is  
24 something in the order of ten million for the exploration  
25 survey development work.

26 COMMISSIONER PERRY: Which makes it nearly as  
27 much as private enterprise?

28 COMMISSIONER SIVERTZ: This would be my guess.  
29 I could supply you with accurate figures on this if it  
30 would be your wish.



1 THE CHAIRMAN: Mr. Secretary, would you take a  
2 note on that?

3 COMMISSIONER PERRY: Those figures might indicate  
4 that the downward trend in private expenditure would be  
5 lessened if the Government figure were added to the private.

6 COMMISSIONER SIVERTZ: Perhaps I should suggest  
7 that there is a difference between the Government  
8 investment in providing the delineation of the land and  
9 its possible resources. The word "exploration" applies  
10 here but there is really a different sense in which  
11 industrial exploration is undertaken. I suggest, for  
12 example, the most vivid one I can give is there is a  
13 basic difference between the work of the geological  
14 surveyor and a prospector.

15 COMMISSIONER PERRY: I don't suppose, for example,  
16 that a Government team has ever drilled an oil well. This  
17 operation is for private enterprise. Mr. Chairman, most  
18 of my questions are directed to ~~the~~ income tax proposals and  
19 you may wish to deal with other matters first.

20 THE CHAIRMAN: I would refer you to Table 2. I  
21 wondered whether you have any idea what the breakdown  
22 would be between oil and gas and other minerals?

23 COMMISSIONER SIVERTZ: There is no oil and gas  
24 production.

25 THE CHAIRMAN: There is none in the Northwest  
26 Territories?

27 COMMISSIONER SIVERTZ: None.

28 THE CHAIRMAN: So 125 wells are capped, are they,  
29 on table 1 (b)?

30 COMMISSIONER SIVERTZ: None are productive wells.



1 Some have oil in them or gas in them.

2 THE CHAIRMAN: And some are dry holes?

3 COMMISSIONER SIVERTZ: Nearly all are dry.

4 THE CHAIRMAN: It would be interesting to know  
5 how many of those could be productive and how many are  
6 in fact dry holes.

7 COMMISSIONER SIVERTZ: Perhaps I should say all  
8 are dry in that none are capable of production. May I  
9 mention, sir, that the technique of oil discovery and  
10 production is the finding of a pool that is capable of  
11 rendering oil to the surface at a marketable cost. As  
12 an example, when the great field at Leduc, Alberta, was  
13 actually brought into production the well that did come  
14 into production was the 101st well drilled by Imperial  
15 Oil in that pool. While it would have been very  
16 gratifying certainly to me and I am sure to the  
17 Companies involved if any one of these wells had gushed  
18 with oil I think that they do accept this program  
19 as normal, the drilling of quite a large number of wells  
20 to determine the formations.

21 THE CHAIRMAN: On pages 7 - 8 it is stated  
22 there were eight active mines in 1958 and there are six  
23 active mines now. I was wondering if you can tell me  
24 what the six mines are. I think I can name one or two  
25 myself but it would be interesting to know what they are  
26 and what minerals they are mining.

27 COMMISSIONER SIVERTZ: I will try, sir, and  
28 suggest to you that we have in the audience experts who  
29 can correct me if you care to turn to them.

30 THE CHAIRMAN: I hope anybody in the audience



1 who finds an imperfection will be so kind as to assist.

2 COMMISSIONER SIVERTZ: The Con-Rycon at  
3 Yellowknife; the Con; the Discovery; Taurcinis; the  
4 Canada Tungsten Mine at Tungsten. Since this report was  
5 written the Tungsten has ceased operations.

6 COMMISSIONER WALLS: What about Pine Point?

7 COMMISSIONER SIVERTZ: Well, Pine Point is not  
8 yet in production. It will not be until 1966. Mr.  
9 Coalthorpe, I think, is able to supply you with the  
10 answers.

11 COMMISSIONER WALLS: On page 17 you indicate  
12 that it is questionable whether the concessions and  
13 provisions of the Income Tax Act, as they apply to mines,  
14 have had any real effect or impetus towards increased  
15 exploration or development. That is the sense I take  
16 from that paragraph.

17 Now going to Pine Point, is it not a fact that  
18 the possibility of a railroad tended towards the  
19 development of the mine rather than a tax concession?

20 The point I am getting at is this: In your  
21 earlier talk you enlarged on what had happened since the  
22 War in the opening up of the country so would it not be  
23 more important for the Government to spend more money on  
24 development of means of access than giving tax concessions  
25 towards the development of the north country?

26 COMMISSIONER SIVERTZ: I believe that is true.  
27 I believe that both are needed. I would think that the  
28 Government should invest in the kind of exploration to  
29 which I have referred, which is the normal Government  
30 function of mapping and inventorying to the greatest



1 extent they can the geology and formations and the other  
2 wealth. This would include things I have not brought  
3 into this talk because they do not bear directly on  
4 your interest. There is water power and timber. I did  
5 mention tourism but there is water power and timber.

6 I believe, on the one hand, that the Government  
7 should play its normal governmental role in doing this  
8 kind of exploration throughout the country and then in  
9 the northland I believe it has a special exploration  
10 developmental roll in creating communication facilities  
11 and transportation facilities.

12 In creating a railway line to the south shore  
13 of Great Slave Lake in co-operation with a mining  
14 Company the Government had in mind reaching this region,  
15 reaching the shores of Great Slave Lake with a railway  
16 and thereby making an opportunity for any other potential  
17 mines that are in reach of this lake shore to bring  
18 their products to market more efficiently than if a  
19 railway did not exist. The railway is an absolute  
20 necessity for a mine of this character. The need,  
21 however, for tax concessions I believe is not less  
22 important. I think that it is perhaps second to the other  
23 but it is also necessary, if one can choose between two  
24 things that are necessary.

25 COMMISSIONER WALLS: You also show concern in  
26 your brief about the fact that the Fort McMurray tar  
27 sands may be developed for oil rather than coming up into  
28 the Northwest Territories. Again is it not a matter of  
29 which operation would be most economic? How are you  
30 going to encourage people to come in here for oil when



1 the distances are so great, as against a proposed  
2 operation that is right up against trackage at the  
3 present time? That is why it seems to me the means of  
4 access is perhaps a more important assistance to the north  
5 country rather than taxation.

6 COMMISSIONER SIVERTZ: Perhaps I had in mind in  
7 connection with transportation not so much concessions  
8 for operations, although we do believe they are needed  
9 for getting a mine underway. Perhaps this is most  
10 particularly the case because of the way in which a time  
11 factor here is decidedly longer than in southern Canada.  
12 A mine which can be brought into production in southern  
13 Canada in two years would I think quite likely take four  
14 years in the north if you were going to depend upon  
15 seaboard transportation or barge transportation or the  
16 summer working season, which it is necessary to do. In  
17 some of the installations you can work only in the summer  
18 months. Therefore I feel the exemptions that are  
19 appropriate for a new mine in the south need perhaps  
20 nearly double the period of tax freedom in the north if  
21 you are going to give them equity.

22 I was thinking of other things too. I was  
23 thinking of the way in which the U. S. industry is able  
24 to make use of tax exempt surpluses that are actually  
25 plowed into the discovery of additional raw materials  
26 for their purposes and the same degree of tax exempt  
27 money from industrial surpluses is not available in  
28 Canada. That is basically the reason we have seen very  
29 large U. S. corporations actively searching all over the  
30 world for places where they can invest these tax



1 exempt dollars which will be otherwise lost to them.  
2 Therefore they have displaced their counterparts in  
3 Canada who have not the same freedom in this regard.  
4 This is the point I had in mind most particularly in  
5 speaking of tax advantages in the area of exploration and  
6 development.

7 I recognize the point you made on the question  
8 of whether encouragement should be given to an industry  
9 in a remote place rather than one that is near to  
10 existing markets.

11 Basically the suggestion that I have to make is  
12 that there are two points of view that one can bring to  
13 bear upon the exploitation of whatever wealth there is  
14 in Canada's northland. One can wait until the demands  
15 of the world's market calls this into production. If  
16 you do that you may wait forever because technological  
17 obsolescence may render oil and gas useless that lies in  
18 the sedimentary basins of the northland. There may no  
19 longer be any demand at all. I have referred to the classic  
20 example of the way coal measures are no longer required.  
21 Similarly there are other metals and minerals which one  
22 may say will not be needed if certain things happen.

23 I think it is desirable that the country  
24 exercise its talents. If it sits and waits then it will  
25 wait indeed forever because it will never develop the  
26 skills on the part of its exploration people, its  
27 metallurgists who develop processing, its transportation  
28 experts and its construction experts. It will never have  
29 expertees in using this northland.

30 I suggest that activity is necessary in this and



1 that inactivity means the possible or hoped for  
2 knocking at our door by hungry nations saying "Please  
3 sell us this stuff at any price"...This will not be a  
4 realization.

5 THE CHAIRMAN: You suggest that in order to  
6 equate the tax concessions for this part of the world  
7 with those in the southern part of Canada there should  
8 be special measures taken. I think most of us assume  
9 that the special measures which are general throughout  
10 Canada for mining are in fact a stimulant to the  
11 development of mines. That is certainly the popular  
12 point of view. It is very hard to support.

13 I, for one, am very curious about whether or  
14 not it does accomplish what it sets out to do. It is  
15 easy to see the subsidies the gold mines have sustained.  
16 There are many gold mines that would not have been in  
17 existence otherwise. It is not so easy to see the  
18 effect of concessions in the area of taxation. I would  
19 like to know whether those mines you have operating in  
20 this part of the world would be operating if the mines  
21 were taxed the way every Canadian enterprise is taxed.  
22 I suggest that mines do get special treatment.

23 You don't in fact go so far as to say this  
24 special treatment is essential although I think I read  
25 in your submission that you believe it is.

26 Have you thought about what the effect of the  
27 three-year exemption might be, the right to amortize all  
28 costs at whatever speed one wishes to do so...

29 COMMISSIONER SIVERTZ: Have I thought of the  
30 effect of a three-year exemption?



1 THE CHAIRMAN: Have those existing concessions  
2 to the mining industry been useful in the development of  
3 the mining industry of the north? Certainly those  
4 concessions cost the Government of Canada and other  
5 Canadian taxpayers a certain amount of money. Over the  
6 years we have considered the money well spent. I am  
7 questioning whether or not it is well spent. Do you  
8 have any views on that, sir?

9 COMMISSIONER SIVERTZ: I am afraid I have not.  
10 I must plead, I suppose, that I am aware of the reports  
11 that are made by mining companies in this matter. Taken  
12 at face value these result in the statement that they  
13 cannot face the full taxation at as early a date and  
14 would not be in a position to go ahead with production if  
15 this were not the case.

16 From time to time they have given us specific  
17 examples that if this could be considered a new mine  
18 rather than the extension of a present mine they could  
19 work it. If it must be considered merely an extension  
20 of a present mining operation they cannot work it because  
21 they are going to have to pay those taxes. I am  
22 referring now to operations in the Yukon.

23 We have asked that studies of this and  
24 examinations of these representations be made by our  
25 economists and they are finding too often in some cases  
26 that the statements of the companies are thoroughly sound  
27 insofar as they can determine. In other cases they have  
28 expressed a certain measure of scepticism. Perhaps  
29 this is asking for conditions that are a little more  
30 favourable than absolutely necessary.



1           The scrutiny of our advisors leaves us with  
2 the impression that the difference between bringing  
3 into production a mine in the north may depend upon  
4 an extension of the tax free period.

5           THE CHAIRMAN: Have you any experience to  
6 support that statement that such an extension would  
7 possibly bring into existence further mines than there  
8 are now?

9           COMMISSIONER SIVERTZ: I am afraid I have not.  
10 I suppose I must point out, whether it is possible for  
11 us to do so or not, we do not in fact study in detail  
12 the balance sheets and the operating costs of the  
13 Companies concerned. This is highly specialized and we  
14 are left with the results, a study of the results.

15           Our impressions are that exploration of the  
16 northland needs additional stimulus. We have searched  
17 here for means by which Government action, through tax  
18 concessions and adjustments, might be used.

19           THE CHAIRMAN: You point to the United States  
20 and their rates of depletion and you suggest they have  
21 had good results. Certainly they have a lot of  
22 development but whether that is because of their  
23 depletion based on gross as opposed to ours based on net  
24 I would be very uncertain. I would have thought lack of  
25 capital gains tax in this country would have gone a  
26 long way to offset any such advantage there might be in  
27 the States.

28           You make a recommendation here to permit the  
29 deduction of all costs from all income, irrespective of  
30 whether it is mining income or not. I wonder whether



1 the successes of buying as a result of this operation  
2 should then receive exemption from tax as a capital gain?  
3 Perhaps the corollary of what you request is that such  
4 advantages as are obtained should be taxed.

5 I think one must in Canada always remember that  
6 there are basic differences and the greatest of these  
7 perhaps is the lack of capital gains tax.

8 COMMISSIONER PERRY: Mr. Sivertz, would you  
9 look at your specific tax proposals which start on page  
10 18? Paragraph 1 makes the suggestion in effect that any  
11 Company be allowed to write off the exploration expenses.  
12 Is there any indication that companies outside the  
13 petroleum and mining industry would be interested in  
14 spending money in this way?

15 COMMISSIONER SIVERTZ: I think not.

16 COMMISSIONER PERRY: This proposal is put forward  
17 as something which you think might have a potential  
18 effect rather than as a reflection of any desire shown by  
19 companies outside of the extractive companies.

20 That leads to another question: The extractive  
21 companies appear to be in a position of relative  
22 liquidity. Why is it they are doing less exploration than  
23 in former years?

24 COMMISSIONER SIVERTZ: In part certainly because  
25 of the Canadian participation clauses in our petroleum  
26 regulations which require the holder of an oil and gas  
27 permit to be a Canadian, a Canadian Company, or one  
28 beneficially owned in Canada. The effect of this has  
29 been to close off the tax-exempt exploration money from  
30 the United States. There are Corporations who might, if



1 allowed to operate in the exploration field in Canada,  
2 make these expenditures but who are estopped from doing  
3 so because they must form a Canadian subsidiary, which  
4 does not qualify, and this has been the case.

5 COMMISSIONER PERRY: Does this just apply to  
6 new licenses granted after a certain date?

7 COMMISSIONER SIVERTZ: No.

8 COMMISSIONER PERRY: I was thinking of Shell.

9 COMMISSIONER SIVERTZ: No, this was made  
10 retroactive.

11 COMMISSIONER PERRY: Was it not one of the  
12 American Companies that found the iron in the Yukon  
13 recently?

14 COMMISSIONER SIVERTZ: Yes, Crest.

15 COMMISSIONER PERRY: A subsidiary of Standard  
16 of California, I think.

17 COMMISSIONER SIVERTZ: The California Standard  
18 which has its stock listed on the Canadian Exchange and  
19 that does qualify it. Standard Oil of California has a  
20 surplus that can flow into this.

21 COMMISSIONER PERRY: I would refer you to page  
22 14. Your second proposal is for the addition of four or  
23 five years at a reduced rate of tax. On page 14, the  
24 third line, this statement appears:

25 "After five or six years, however, when they are  
26 exposed to the full impact of taxation, they  
27 frequently cease to be profitable and go out of  
28 business."

29 Now what does that mean? Does that mean that  
30 the normal life of the mine is only five or six years or



1 that the yield is so small that after the imposition of  
2 tax ~~was~~ the net is not enough to warrant continuing the  
3 operation?

4 COMMISSIONER SIVERTZ: Perhaps it is hardly right  
5 to use this as a generalization. There have been two or  
6 three cases of this and the encouragement of such small  
7 gold mining operations we think of as less important than  
8 the exploration and the discovery of large deposits that  
9 will warrant an efficient economic installation that could  
10 amortize over a considerable period.

11 COMMISSIONER PERRY: Yes. This must be a mine  
12 which at this point has written off most of the  
13 exploration costs and a large part of depreciation and  
14 cannot even support the operating expenses.

15 COMMISSIONER SIVERTZ: That is true. These  
16 have tended to be mining operations that you might  
17 describe as salvage operations. The exploration has been  
18 done, a certain amount of development work has been done  
19 and the company wishes to use the opportunity of  
20 recovering at least part of its investment by producing  
21 the property for a few years. It is not wealthy enough  
22 or the general ore body is not rich enough to support a  
23 continuing operation but they can salvage part of what  
24 they put into this, or all of it, by working the best  
25 sections of what they had.

26 COMMISSIONER PERRY: But your proposal here is  
27 directed more to the encouragement of large efficient  
28 economic operations?

29 COMMISSIONER SIVERTZ: Yes, sir.

30 COMMISSIONER PERRY: In that respect you have no



1 doubt heard the statement made because of the foreign  
2 investment in the mining area that the Canadian tax  
3 concessions may simply be forgiving companies in Canada  
4 a tax which they would otherwise pay to the United States  
5 Government. The statement is even made that to a large  
6 extent our tax concessions might simply be a subsidy to the  
7 United States Treasury because had the tax been paid in  
8 Canada that tax would have been allowed as a credit against  
9 the U. S. tax and a correspondingly low tax paid to the  
10 United States Treasury. Some people indeed go as far as to  
11 describe these tax concessions as granting a subsidy to  
12 the U. S. Treasury as a result of the lack of a credit as  
13 I have just described.

14 Would you have any comments on that point of  
15 view?

16 COMMISSIONER SIVERTZ: I am afraid I had not  
17 followed through into this area. I had looked only at  
18 the manner in which the U. S. corporation is enabled to  
19 use surpluses and they are exempted from tax provided  
20 they are in exploration and development of productive  
21 facilities or capacities. For its business with a similar  
22 tax freedom is not available to the same degree. I would  
23 like to see that available in the same degree otherwise  
24 there are means by which the U. S. Corporations can apparently  
25 continue to flow this capital in. This is less  
26 advantageous to them than it used to be before the  
27 Canadian participation clauses.

28 I cannot comment on the effect of the benefit to  
29 the U. S. Treasury.

30 COMMISSIONER PERRY: This is a point of view



1 which is advanced very strongly by some persons.

2  
3 ----The hearing was then adjourned for fifteen minutes.

4 COMMISSIONER PERRY: We have been dealing with  
5 this point as to whether or not the Canadian concessions  
6 had any bearing on revenues of the U. S. Treasury but  
7 that is a subject which has to be explored in some  
8 detail elsewhere, I think.

9 Your third proposal relates to the depletion  
10 allowance and always raises the question of the point at  
11 which the exploration expenses should be deducted.

12 The history there is rather interesting and I  
13 must say a bit confusing. Under ordinary income tax  
14 jurisprudence expense of this kind would not be deducted  
15 at all but would be treated as a capital expense. For  
16 many, many years they were only deductible under our tax in  
17 a very limited way. During the War for incentive reasons  
18 the allowance was extended and was granted as a tax credit  
19 renewable each year and turned into an income deduction  
20 for a while and was renewed for periods. Finally under  
21 pressure from the industry that this be recognized as an  
22 ordinary and proper expense of carrying on mining it  
23 was finally taken into full account in the profit  
24 computation, much to the great satisfaction of the  
25 industry. Now, of course, the argument is being made  
26 that for depletion purposes that this deduction should not  
27 be so regarded, that it should not be treated as part of the  
28 profit computation. The depletion, under most proposals,  
29 should be determined at a point prior to the deduction  
30 of the exploration expenses.



1 This is not really a question to the witness.

2 It is more or less a philosophical point that is being  
3 made. I was wondering if it seemed to him there might  
4 be any inconsistency in this proposition that for  
5 depletion this amount not be taken into the profit  
6 computation.

7 COMMISSIONER SIVERTZ: I haven't any comment on  
8 the philosophical or the jurisprudence aspects of this  
9 but only to say simply that the position that I have  
10 proposed here is taken because of the representations  
11 that industry has made to us and which they have based  
12 to a very large extent on the point that appeals in a very  
13 strong way to us: That this is the situation under which  
14 their principal competitors in the United States are  
15 working. We have thought that the United States has been  
16 remarkably successful in getting this kind of exploration  
17 work done and development of properties done and we had  
18 therefore thought the points were well taken. Look  
19 at how the U. S. tax benefits have encouraged and  
20 resulted in vigorous industrial development. Now we  
21 realize that there are other factors in the development  
22 of any enterprise with the United States having proximity,  
23 as it does, to that very large domestic market. We  
24 had been impressed with the argument that this is the kind  
25 of thing that is helpful.

26 COMMISSIONER PERRY: Yes. Well, there are other  
27 aspects to compare, of course. I was reminded of this  
28 a couple of weeks ago when a friend of mine in the United  
29 States Treasury, who was appearing before a Congressional  
30 Committee, called me over the lunch hour to get



1 information on a question that he was going to have to  
2 answer in the afternoon. He wanted to know whether in  
3 Canada a certain expense was treated in a certain way in  
4 the petroleum industry. I said, "yes, it is". He said,  
5 "Oh, you just cut the ground from under me. The oil  
6 people in the States want this. It would be very  
7 favourable treatment for them. We have been arguing  
8 against it and we hoped that the Canadian position would  
9 support our case."

10 This is a case where Canada's treatment was more  
11 generous than the American. I am afraid there is a  
12 tendency to look at the more favourable aspects of the  
13 foreign tax system.

14 COMMISSIONER SIVERTZ: I would hate to see the  
15 positions in countries being played off against each  
16 other. I submit this for the consideration of the  
17 Commissioners but we recognize that you are aware of  
18 much broader aspects of this than we are. In searching  
19 for ways in which to encourage the northern development  
20 this is one of the ways that we have arrived at. It was  
21 suggested to us by industry and it does seem to have some  
22 merit.

23 THE CHAIRMAN: Like you(I have heard this  
24 suggestion put forward by the industry and by Americans  
25 operating in this country. So far I had not been able  
26 to rationalize to my own satisfaction a depletion  
27 allowance based on gross income. Perhaps one should not  
28 try to rationalize these things. I can understand the  
29 net does reflect a measure of the total value of the  
30 enterprise and the gross does not. Therefore it is



1 amortization of the value of what there is there. When  
2 one relates it to the gross it seems to me one loses  
3 that relationship but perhaps that is seeking something  
4 that is unnecessary if the end would be a desirable end.

5 COMMISSIONER SIVERTZ: We fully realize the  
6 Commissioners have in mind the economy of the nation and  
7 not the economy of the north alone. I suppose that I  
8 should add to that it is my hope that if the Commissioners  
9 see their way clear to propose tax concessions or other  
10 methods of encouraging northern development that this is  
11 a worthwhile thing to do. This northland that Canada  
12 possesses is lying fallow and should be tilled.

13 COMMISSIONER PERRY: I had one further question.  
14 I think it is answered by the brief. The proposals that  
15 you made are for general application and not simply for  
16 application in the north?

17 COMMISSIONER SIVERTZ: I believe that this is  
18 a principle that we, and I believe the Ministers of the  
19 past decade and more, have regarded as desirable: That  
20 is that the northland be treated not as a colony but as  
21 an integral part of the country, that the laws of the  
22 rest of Canada do apply, that any special conditions  
23 here be given consideration without separation of the  
24 northland in a colonial sense.

25 THE CHAIRMAN: I think that completes our  
26 questions, Mr. Sivertz. You have been tremendously  
27 useful to us. We have an understanding of these matters  
28 which we certainly did not have before and I can give  
29 you our assurance that when we come to deliberate the  
30 matters on taxation for all of Canada our visit up here



1 will ensure that we have in mind your problems at this  
2 end. That is no assurance how we are going to deal with  
3 them, it is at least an assurance we are not going to  
4 overlook them. I believe our visit to the north has  
5 been extremely worthwhile to the Commission and I hope  
6 to a successful job. Thank you very much for appearing  
7 this morning.

8 Is there anything else, Mr. Secretary?

9 THE SECRETARY: Yes, there is, Mr. Chairman.

10 Present this morning is Mr. M. Walcer, who is President  
11 of the 802 Local of the Mine, Mill & Smelter Workers  
12 Union. With him is Mr. Bradshaw, a trustee of the Local.  
13 These two gentlemen have requested that they be  
14 permitted to come forward in support of the brief which  
15 was presented in Whitehorse by their Union. They are  
16 prepared to answer some questions, Mr. Chairman, if you  
17 would like to hear them.

18 THE CHAIRMAN: I would be very glad to hear  
19 what they have to say.

20 Good-day. We heard from your Union, as you know,  
21 when we were in the Yukon and I understand from our  
22 Secretary that you support the submission that they made  
23 to us. Is there anything you would like to say to  
24 amplify it or would you like to discuss it in any way?

25 MR. WALCER: Mr. Chairman and honourable members  
26 of the Royal Commission on Taxation, due to circumstances  
27 beyond our control the regular committee, who were to  
28 have represented us, is unavailable.

29 Please bear in mind that if there are any  
30 errors or omissions or inability to answer questions by



1 us we will endeavour to answer these by a letter.

2 We appear before you to reaffirm our support of  
3 the recommendations submitted to you by this brief at  
4 Whitehorse.

5 THE CHAIRMAN: Thank you very much.

6 THE SECRETARY: You have no additional brief?

7 MR. WALCER: No, we don't. We are willing to  
8 be cross-examined and perhaps the Chairman or members of  
9 the Commission have questions pertinent to this.

10 COMMISSIONER PERRY: I think we gave the  
11 original brief a thorough examination.

12 THE CHAIRMAN: In looking over my notes I cannot  
13 find anything that is open. I think I covered the matter  
14 pretty thoroughly at that time. I can't think of  
15 anything which is local, that is designating it from the  
16 Yukon particularly.

17 COMMISSIONER WALLS: I think I asked all the  
18 questions necessary and got all the answers. One of the  
19 main questions, and I don't think that you can enlarge on  
20 it any more, why there would be a different wage scale  
21 here in comparison with Whitehorse for the same operation?

22 MR. WALCER: Perhaps a part of the answer to  
23 the question is that in certain of the Territorial  
24 mining operations wage scales were adopted by, shall we  
25 say imported workers, and that was by following up an  
26 agreement from an outside operation from some of the  
27 different Provinces, adopting them here and then following  
28 them up by agreement.

29 COMMISSIONER WALLS: You would not tend to lose  
30 miners from this area, or mine workers from this area, to



1 the Yukon because of wage advantages in some categories?

2 MR. WALCER: The tendency may be there but it  
3 is the general trend of miners to follow the industry  
4 wherever jobs are available. You will find a lot will  
5 flow to centres which afford residential advantages  
6 and a place where they may find a future home for the  
7 long term. I think a lot of them, who are transient  
8 workers in the mining industry, are no longer shifting  
9 as much. In centres like this you will find more of  
10 the married type of worker, who usually provides the  
11 stable type of worker. I think those problems are  
12 disappearing. Whether we actually lose to the Yukon  
13 to their advantage or not I couldn't say at this time.

14 THE CHAIRMAN: Thank you very much indeed. We  
15 note that you support what we received from the Union  
16 in the Yukon and we thank you for coming forward to see  
17 us.

18 MR. WALCER: In return we want to thank the  
19 Commission for appearing in Yellowknife to consider all  
20 the briefs presented by delegates from this centre.

21 THE CHAIRMAN: Is there anything else, Mr.  
22 Secretary?

23 THE SECRETARY: That is all, Mr. Chairman. That  
24 concludes the hearings in the Territories.

25 THE CHAIRMAN: We will stand over until August  
26 7th in St. Johns, Newfoundland.

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# ROYAL COMMISSION

ON

# TAXATION

HEARINGS

HELD AT

St. John's Newfoundland

VOLUME No.:

DATE:

32

August 7, 1963

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1  
2 ROYAL COMMISSION ON TAXATION

3 Hearing held in St. John's  
4 Newfoundland, in the Confederation  
5 Building, on Wednesday, the 7th  
6 day of August, 1963.

7  
8 COMMISSION:

9 MR. KENNETH LeM. CARTER -- Chairman

10 MR. J. HARVEY PERRY

11 MR. DONALD G. GRANT

12  
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14  
15 SECRETARY:

16 MR. G. L. BENNETT  
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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF ST JOHN'S, NEWFOUNDLAND

August 7, 1963

TOPICAL INDEX

VOLUME No. 32

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a ) <u>INTRODUCTION:</u>		
	Opening remarks of the Chairman	2086, 2087
( b ) <u>Submission: Of</u>		
	<u>The Newfoundland Board of Trade</u>	2085
9	Business Income Taxation- Other	2098 - 2099
13	Corporate Accumulations and Distributions	2090, 2093
15	Corporate Income Tax - Double Taxation, Dividend Tax Credit	2095 - 2097
21	Estate Taxes, Gift Taxes	2116 - 2133
32	Personal Corporations	2093 - 2095
39	Personal Income Tax - Personal Savings and Investments	2103 - 2108
40	Personal Income Tax- Rates; Inter-Family Transactions	2108 - 2113
46	Sales Tax- Federal	2113 - 2116
49	Tax Administration	2099 - 2103
( c ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	2086 - 2090
	The Composition of Newfoundland Board of Trade, its history and activities.	2087 - 2089
	A reference to problems encountered under sections 82 and 105 of the Income Tax Act. with respect to deceased principal share- holders etc., and decisions of application of the 15% tax, the basis, effects of.	2090 - 2093
	A reference to some problems encountered in respect to closed Personal Corporations, a specific example of presented, also, the limitations recited tax-wise.	2093 - 2095
	A point raised in respect to Corporate Income Taxation, the question of eliminat- ion of the tax on dividends, and the matter of double taxation, the problem arising with regard to Government loss of revenue etc.,	2095 - 2097



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The Newfoundland  
Board of Trade

August 7, 1963

Volume No. 32

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( c )	<u>SPECIFIC DISCUSSIONS ( continued )</u>	
	A point in respect to Power Companies exploration expenses incurred in connection with abandoned sites, and the matter of such expenses incurred in planned ship building later abandoned, the loss to the Companies without tax relief, some views and exemplifications of.	2098 - 2099
	A reference to the suggestion of the Tax Department giving binding rulings which would have the same effect as assessments, a general viewpoint and arguments in respect thereto.	2099 - 2103
	A reference to Retirement Savings Plans, the present provisions under section 79-B of the Income Tax Act; The suggested necessity of increasing the limits beyond existing provisions, some exemplifications and points of view in support thereof, and the reaction to the points raised.	2103 - 2108
	A reference to section 22 and its sub-sections of the Income Tax Act; dealing with transfers to minors, a recommendation of its repeal. A general detailed view of the subject, and the reaction to the proposal.	2108 - 2113
	A question of Federal Sales Tax issuance of wholesale licenses by the Excise Tax Division to the selling source to overcome the conflict of interests in the matter of refunds on tax free items, some reasons recited.	2113 - 2116
	A reference and discussion in respect to the present problems encountered under the Estate Tax Act; as presently in force.	2116 - 2123
	Closing remarks of the Chairman.	2123



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August 7, 1963

Volume No. 32

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( d )	<u>Submission: Of</u>	
	<u>The Newfoundland Estate Tax Committee</u>	2I34
	Opening remarks of the Chairman	2I34 - 2I35
2I	Estate Taxes, Gift Taxes	2I35 - 2I56
( e )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2I35 - 2I42
	Nature of the Committee, its purposes and functions.	2I35, 2I36
	Estate Tax administration and methods of evaluation of shares in private Companies ( particularly "In the business of Supplying" ) for estate tax assessment, the suggested detrimental effect on represented Companies' ability to continue business in Newfoundland as a prime part of the economy of the Province. A general outline of the basis for some change in the methods presently practiced, a resume of the problems that confront such Companies.	2I38 - 2I55
	A reference to section 28 related to minority shareholders.	2I55, 2I56
	Closing remarks of the Chairman.	2I56

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
IO3	Brief of Newfoundland Board of Trade.	2086
IO4	Brief of The Newfoundland Estate Tax Committee.	2I34
IO5	Brief of Lieutenant Colonel E.A. Olmsted	2I57
IO6	Brief of Mr. Donald Huggett, Montreal, P.Q.	2I57



ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

2086

St. John's, Newfoundland  
Wednesday  
August 7th, 1963

AG/RPS<sup>2</sup> ---UPON COMMENCING AT 9:30 A.M.

THE CHAIRMAN: It being 9:30, Mr. Secretary,  
would you commence the proceedings please?

THE SECRETARY: Mr. Chairman, Commissioners:  
With a great deal of pleasure I introduce this morning  
Mr. Ayre, the Executive Manager of the Newfoundland  
Board of Trade in this very historic city.

The Board of Trade submitted a brief to the  
Commission, which was received in our office on July  
the 8th. Mr. Ayre will introduce other officers of the  
Board of Trade who will speak to the brief.

I would like to enter this brief into the  
records as Exhibit No. 103.

---EXHIBIT NO. 103: Brief submitted by Newfoundland  
Board of Trade.

SUBMISSION OF THE NEWFOUNDLAND  
BOARD OF TRADE

Appearances:

Mr. J. Hyslop

Mr. F.L. Wood

Mr. E.G. Godden

Mr. J.A. Nesbitt

Mr. E.M. Hunter

Mr. E. Knight

Mr. A.G. Ayre

THE CHAIRMAN: Thank you Mr. Secretary



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3

1 Good morning Mr. Ayre and gentlemen. It is a great  
2 pleasure to this Commission to be in St. John's. It  
3 is only in this way that we learn something about the  
4 desires, and the needs of the different localities of  
5 Canada.

6 Mr. Ayre, usually on these occasions the  
7 people appearing before us say a few words. They don't  
8 read their briefs. That is unnecessary. We have  
9 already read yours, with a great deal of interest, I  
10 might say. They generally speak to it, and make any  
11 comments they please, and we ask questions.

12 I think perhaps the nature of this one before  
13 us suggests that questions be asked part by part, if  
14 that suits you people, but by all means do it just as  
15 you please.

16 Before starting I would be grateful, Mr. Ayre,  
17 if you would care to introduce your delegation so that  
18 their names are on the record, and also if you would  
19 tell us something about the St. John's Board of Trade.

20 MR. AYRE: Mr. Chairman and Royal Commissioners:  
21 On behalf of the Newfoundland Board of Trade, needless  
22 to say it gives us great pleasure to welcome you here to  
23 Newfoundland and to St. John's in particular.

24 I might suggest one very slight departure, sir,  
25 from your suggestion. I won't be introducing the  
26 delegation. I will call upon the Chairman in a moment.

27 The Newfoundland Board of Trade consists of  
28 over eight hundred leaders in business, the professions  
29 and other walks of life, and also represents half as  
30 many more, which composes the membership of eight of our



4 1 affiliates throughout the Province.

2 Our pleasure in having you with us is tempered  
3 only, sir, by the fact that some of your colleagues  
4 weren't able to be present, and I would ask you to  
5 extend to them our greetings when next you see them.  
6 I trust you will find it convenient, together with them,  
7 to return again at a later date, whether it be for  
8 business or to enjoy the facilities we have.

9 Our Chairman, Mr. Godden, First Vice-President  
10 of the Newfoundland Board of Trade.

11 MR. GODDEN: Mr. Chairman, Gentlemen: First  
12 of all I would like to echo some of Mr. Ayre's words.  
13 We would certainly like to welcome you to the cornerstone  
14 of the Empire, or should we say Commonwealth?

15 The Newfoundland Board of Trade is pleased to  
16 present this brief to the Royal Commission on Taxation.

17 In actual fact it has now become a brief brief. For  
18 a variety of reasons during the preparation of this  
19 submission a lot of the work was culled, was cut out,  
20 and this was done, sir, for two reasons.

21 Firstly, we wanted to present the points that  
22 the Committee felt most strongly about; and secondly,  
23 sir, we appreciate the fact that your time and that of  
24 the members of your Commission is very valuable. We  
25 didn't want to burden you with a thick volume, the  
26 contents of which you have probably read many times  
27 before, as being included in previous submissions.

28 Right now, sir, I would like to introduce  
29 some of the members of the Newfoundland Board of Trade  
30 who served on this Committee, the so-called Taxation



5 1 Committee of the Newfoundland Board of Trade.  
2 From my right, Mr. Eric Knight, of the  
3 Colonial Cordage Company, manufacturers of ropes and  
4 twines, et cetera; next to him, Mr. Ted Hunter,  
5 chartered accountant; to my immediate right, Mr.  
6 James Nesbitt, Manager of the local branch of the  
7 Montreal Trust Company, Vice-President of this  
8 Committee; Mr. Laurie Wood, of the Standard Manufacturing  
9 Company; manufacturers of paints, Mr. John Hyslop, chartered  
10 accountant; and Mr. Ayre, of course, who worked as Secretary of  
11 this Committee, and as a matter of fact he wrote this  
12 brief. It was his responsibility to collect the work  
13 and material from the various people who compiled the  
14 brief. It was his job to report to the various sub-  
15 committees, of which we had five.

16 Now, sir, the Committee feels that their brief  
17 has been almost, you might say, self-explanatory, and  
18 we do have four gentlemen who would be prepared to answer  
19 any questions that you might care to put to them. Two  
20 gentlemen, unfortunately sir, who contributed heavily  
21 to this brief, aren't with us. Mr. Drummond Grieve,  
22 accountant, who was responsible for the creation of  
23 Section 4(a) and (b) was to be here this morning sir  
24 to answer any questions you might care to put forward  
25 under these two Sections. He was called away from the  
26 City, sir, and of course will not be able to make any  
27 explanations to you. The other gentleman who contributed  
28 quite largely to this brief is Doctor Copes, economist,  
29 and he created Sections 11 and 12 of the brief, and he  
30 also had been prepared to speak before you this morning.



1 Now sir, I am not quite sure how you wish to  
2 run through this. Would you like to start at the various  
3 sections, or would you, sir, rather throw the questions  
4 out, and I can introduce the person who will answer them  
5 for you?

6 THE CHAIRMAN: I think we would like to take  
7 it bit by bit as we proceed, and I would certainly  
8 invite you to remain seated, Mr. Godden, unless you  
9 prefer to stand. It is up to you.

10 As we deal with it bit by bit, I think we will  
11 ask questions.

12 The first matters here really concern Sections  
13 4(a) and 4(b), I think, and of course Mr. Grieve is  
14 absent. I wouldn't be surprised if we had one or  
15 two questions on that, and I am wondering whether there  
16 is any possibility of getting an answer? We might try  
17 the question anyhow, and if there is not an answer ---

18 MR. PERRY: Specifically I wondered whether  
19 the recommendation could be explained in one respect.  
20 I wondered whether it was intended that at the time of  
21 the death of a principal shareholder the tax be payable  
22 on the whole of the undistributed income, or simply on  
23 the part that was going to be required to meet his  
24 estate tax. There is not any necessary confusion in  
25 the statement. The confusion is in my mind, because it  
26 doesn't cover this point specifically.

27 MR. HYSLOP: I think I could speak for Mr.  
28 Grieve in that. I think it is almost certain that his  
29 intention was that the 15 per cent tax should be payable  
30 only on that amount which is withdrawn for the purpose



7 1 of paying the estate tax, not on the whole.

2 I think that quite definitely was Mr. Grieve's  
3 intention.

4 MR. PERRY: Well, then going on from that,  
5 I wonder if you, Mr. Hyslop, could undertake to explain  
6 what this proposal would give beyond what is now in  
7 the statute? In other words, the existing provisions  
8 of the statute do go some way, and in fact in the first  
9 place were designed for this very situation.

10 MR. HYSLOP: I am trying to speak with  
11 Mr. Grieve's mind, which is a little difficult, but I  
12 think he was principally concerned with the situation of  
13 Newfoundland companies, which very largely are companies  
14 of a family nature.

15 That of course doesn't answer your question.

16 MR. PERRY: Well, there are one or two things  
17 I can see myself, and that is that it does leave it  
18 within the control of the company as to when it pays the  
19 tax. In other words, it waits 'til this event of the  
20 death of the principal shareholder, rather than anticipat-  
21 ing this fact, as is required under the general  
22 statute.

23 MR. HYSLOP: He was thinking, I think, of  
24 the difference between tax at 15 per cent and the tax  
25 at the relatively high and graduated rates which would  
26 apply if a large sum were withdrawn at one time.

27 THE CHAIRMAN: Without taking the benefit  
28 now provided by Section 105 away?

29 MR. HYSLOP: Yes, and of course the benefit  
30 of Section 105 would not necessarily apply to the full



amount of the undistributed income if there weren't dividends that were paid in the past sufficient to make the company eligible to pay tax at 15 per cent. It has happened I know in certain cases that certain companies whose dividend policy has been what you might call ultra conservative, they have not had a fund of past dividends on which they have been able to pay the 15 per cent tax. The result is that they have to withdraw a large amount at one time.

THE CHAIRMAN: The objection to this recommendation would be that the company can draw a large amount out, the directors and shareholders knowing that is it an easy way to bail out later on.

MR. HYSLOP: Yes, I can see that.

THE CHAIRMAN: Do you know from your experience gentlemen, if there have been many cases of private companies being sold away from Newfoundland ownership because of the dual incidence of income and estate taxes?

We have heard this said in various parts of Canada. I wonder if there is more impact here than there is elsewhere, and I wonder if there is in fact hardship resulting now? I have not heard many cases of hardship. The point has been made that it can arise.

MR. NESBITT: Mr. Chairman, I believe Mr. James Greene will be presenting a brief, particularly on the relative control of family corporations as opposed to the mainland industrial corporations, the T. Eaton Company, et cetera, and I think he will specifically speak on that particular aspect.

I think as a partial answer to your query, one



91 might say that it has not occurred yet in Newfoundland  
92 that we know of, mainly due to the fact that we have  
93 only been part of Canada for the last 10 years or so,  
94 and some of the major shareholders have not as a result  
95 of now being a part of estate taxes been forced into  
96 the situation, or become that old, or passed on.

97 MR. PERRY: The other questions under Section  
98 4 relate to the personal corporations. Is Mr. Hyslop  
99 prepared to speak for Mr. Grieve on that Section?

100 MR. HYSLOP: Not really, but I will do what  
101 I can.

102 THE CHAIRMAN: Mr. Grieve was only concerned  
103 with (a) and (b), so if you are going on to (c), let  
104 somebody else deal with it.

105 MR. PERRY: We were wondering whether there  
106 were many cases in your experience here of a personal  
107 corporation being classed as such even though it operated  
108 in a commercial building. Is this a common sort of  
109 occurrence?

110 MR. HYSLOP: I don't know if it is common,  
111 but I can think of at least one case in my own knowledge,  
112 and I presume Mr. Grieve, since he introduced this,  
113 had at least one, and probably several.

114 THE CHAIRMAN: This whole matter of personal  
115 corporations is extremely difficult, because obviously  
116 it provides an opportunity without -- rather there would  
117 be an opportunity without this particular Section in  
118 the Act for people to defer tax on personal income to  
119 a very grave extent, and what should be done to prevent  
120 that I don't quite know, but if one exempts the operation,

10 1 or extends the extent of the operation of the Section  
2 to a commercial building, it may cause a loophole there.

3 MR. HYSLOP: I think what was in Mr. Grieve's  
4 mind was the distinction between the case on the one  
5 hand where a taxpayer merely buys an existing building  
6 and operates it, and on the other hand where he has  
7 the enterprise to build his own building, taking perhaps  
8 more risks in the course of doing that than otherwise,  
9 and therefore his operation being possibly more closely  
10 related to a commercial operation rather than investment.  
11 So really it is a matter of degree. It is not an  
12 absolute matter.

13 MR. GODDEN: On Section (d) we have Mr.  
14 John Hyslop to reply, and also Mr. Ted Hunter.

15 THE CHAIRMAN: We recognize that the  
16 desirability of this division might not by itself be a  
17 good enough reason for its introduction into the Act.  
18 It, we thought, would be very expensive to exempt  
19 dividends. I don't think we have got the calculation  
20 with us, but it would amount to a good deal, and the  
21 shortage would have to be made up in other ways.

22 MR. PERRY: Mr. Chairman, I wondered if we  
23 had overlooked the fact that there was another point  
24 on personal corporations, the deduction of losses of  
25 personal corporations?

26 We wondered what losses these would be, since  
27 personal corporations aren't allowed to carry on a  
28 business?

29 MR. HYSLOP: I think what Mr. Grieve had in  
30 mind was allied to the one we were previously speaking of,



111 | where the corporation operates a business. Capital  
2 | cost allowance there might bring about a loss. Again  
3 | I am only speaking of what I think he meant.

4 | MR. PERRY: So this proposal would only have  
5 | effect if the other one were implemented, if the  
6 | operation of a building were permitted?

7 | MR. HYSLOP: No, it would be without the  
8 | other way being implemented. Such a corporation is a  
9 | personal corporation.

10 | MR. PERRY: Yes sir, this is just a matter  
11 | of semantics, but apart from the previous proposal do  
12 | you have knowledge of situations where there would be  
13 | losses to deduct?

14 | MR. HYSLOP: Well, my experience of losses  
15 | in personal corporations has, I must confess, been very  
16 | different from Mr. Grieve's, in that the view is taken  
17 | that if a corporation makes a loss it can't be a personal  
18 | corporation because of the definition, so I find it  
19 | rather difficult to speak to this particular one.

20 | THE CHAIRMAN: Let's move on to (c), shall  
21 | we?

22 | MR. PERRY: I think what confuses me is that  
23 | we have two (c's) here.

24 | THE CHAIRMAN: Well, I take it that there has  
25 | been little thought given, or perhaps there is some  
26 | paper behind this, to the actual amounts that would be  
27 | involved in the elimination of a tax on dividends? We  
28 | thought it would be pretty expensive. We were also  
29 | concerned about the effect on dividends paid abroad,  
30 | as to how that would be taxed under those circumstances?



121 MR. HYSLOP: Mr. Chairman, at the risk of  
2 appearing to take over the whole meeting -- I seem  
3 to be the one who has been talking most, I would like  
4 to remark on that.

5 This particular proposal regarding the taxation  
6 of corporation income and corporation dividends was  
7 made, I might say, on the basis of principle, rather  
8 than taking into account the ultimate effect of it.  
9 I think it was quite obvious to us that this would cost  
10 the Government a very sizeable amount of money, but we  
11 felt that the principle there should be rather that the  
12 income of the corporation ultimately is the income of  
13 the shareholder, and should be taxed therefore on the  
14 basis of the ability of the individual shareholder to pay.  
15 If that principle is accepted the Government does lose  
16 a great deal of money, but we felt, I think, that  
17 principles come first, and rates come second. Having  
18 established the principle, then the rates applicable  
19 to this tax, and any other tax, must be adjusted to  
20 produce the amount of money that is needed.

21 THE CHAIRMAN: The principle, I must say,  
22 gives me a lot of concern, and probably the other  
23 Commissioners likewise, because as you are well aware  
24 there is considerable debate as to who bears corporation  
25 tax. There are many people who say that corporation  
26 tax is passed on to consumers, customers, wage earners,  
27 and others, rather than being borne by shareholders.  
28 If one accepts the point that it is all borne by  
29 shareholders, of course there is double taxation. If  
30 it was half borne by shareholders, I suppose the dividend



131 credit, as we now enjoy that, would about eliminate  
2 the double tax --

3 MR. HYSLOP: Yes.

4 THE CHAIRMAN: So, as I say, we are perplexed  
5 about that. We may have an answer about a year from  
6 now as to whether there is double tax or not.

7 Would anybody else like to speak to that?

8 MR. NESBITT: I might say, Mr. Chairman,  
9 that as we go along this morning you might find a  
10 diversification of opinions as to our mutual consolidated  
11 brief. I for one agree that it might be as well if  
12 the corporation weren't taxed at the rate of 15 per cent.  
13 Then we might receive more money, but being a very small  
14 shareholder in a very few companies I enjoy my 20  
15 per cent tax credit, and would hate to give it up. So  
16 it is sort of six of one and half a dozen of the other.  
17 I agree that perhaps those dividends paid by corporations  
18 to their shareholders should be, if you wish, debts of  
19 the corporation, and deducted as such before the tax  
20 is paid, but at the same time I don't know whether I  
21 would like to give up my 20 per cent tax credit, because  
22 it spurs me perhaps to invest a little bit of what money  
23 I may save over a period of time. It is a psychological  
24 attitude. When you come to March the 15th you feel  
25 "Oh good, I have a 20 per cent tax credit that they  
26 are not going to get".

27 THE CHAIRMAN: Well, it is good to hear that  
28 there is an advantage to that 20 per cent tax credit.

29 MR. NESBITT: I personally feel that there  
30 is to a certain extent.



141 MR. GODDEN: Mr. Chairman, if there is anything  
2 on Sections (d) and (e), we have Mr. John Hyslop here  
3 to answer again sir.

4 THE CHAIRMAN: Well, I suppose we could start  
5 off by asking Mr. Hyslop more particularly to tell us  
6 those items to which sub-section (d) refers?

7 He eliminates in that Section those expenses  
8 in respect to the acquisition of land, goodwill, loans,  
9 advances or securities I see. What are the others to  
10 which these remarks are directed?

11 MR. HYSLOP: They are, broadly speaking, the  
12 types of expenses which in recent years have come to be  
13 known popularly as "nothings".

14 The ones I can think of from my own personal  
15 experience are explorations by a power company in order  
16 to determine what would be the best source of additional  
17 power, the results of some of these explorations necessarily  
18 having to be abandoned because they didn't choose all  
19 sites or all methods of producing power. These exploration  
20 expenses, surveys, plans, and so on, can cost a great  
21 deal of money. They are regarded as capital, but at the  
22 same time, since they are not tangible property, they  
23 are not eligible for capital cost allowance under clause  
24 eight, and they would not be specifically allowed under  
25 any other Section either.

26 Another somewhat related, but not quite the  
27 same thing, which I have come across in my own  
28 experience was the decision to build a ship. Plans  
29 being prepared for the building of a ship at considerable  
30 cost, the decision then being reversed, and the ship not



151 being built. These costs of plans do become a loss  
2 to the company, but for the very same reasons aren't  
3 allowed as an expense, nor subject to capital cost.

4 These are the only two specific ones with  
5 which I have had any connection.

6 THE CHAIRMAN: The exploration expenditure  
7 by a power company would not be ruled out by your  
8 phrase, which is " . . . expenditures made in respect  
9 "to the acquisition of land . . . "?

10 MR. HYSLOP: No, this is not the acquisition  
11 of land. It is ---

12 THE CHAIRMAN: The right to a power site?

13 MR. HYSLOP: The right to use water power,  
14 and not only the right to use it, but the advisability  
15 of using that particularly. That is really what is  
4 16 meant.

17 THE CHAIRMAN: How about expenses incurred  
18 towards the acquisition of land where the purchase  
19 didn't proceed?

20 MR. HYSLOP: That would be in much the  
21 same category I feel, because the company does wind  
22 up by having made an expenditure and having obtained  
23 no ultimate benefit from it.

24 THE CHAIRMAN: Moving on to (e), concerning  
25 rulings, and I think it is dealt with also on page  
26 13, you would wish the Department to give rulings which  
27 would have the same effect as assessments.

28 Would you expect that to be accomplished  
29 at the local office, or would you generally expect to go  
30



15 1 to Ottawa to seek a ruling?

2 MR. HYSLOP: I would say we would expect it  
3 to be accomplished by exactly the same procedure as an  
4 assessment, based on a return.

5 THE CHAIRMAN: And take as much time?

6 MR. HYSLOP: It would possibly take time,  
7 but I am thinking only of matters which to the particular  
8 taxpayer would loom fairly large. The taxpayers wouldn't  
9 for instance ask for a ruling on a small amount involv-  
10 ing just a few hundred dollars, but where certain  
11 transactions are entered into and the tax effect is  
12 doubtful, and the amount involved is large, then it  
13 can be a serious handicap to the taxpayer in making up  
14 his mind whether to enter that transaction or not.

15 THE CHAIRMAN: Do you find that the system  
16 is now inadequate in that respect?

17 MR. HYSLOP: From a practical point perhaps  
18 not. As a matter of fact my experience is that the  
19 tax department are extremely obliging in giving an  
20 opinion on any matter of this kind, but it isn't in a  
21 position to bind itself to the same extent as it does  
22 bind itself with an assessment. In other words, an  
23 individual in the Department office may help a taxpayer  
24 by giving him his opinion of what the effect would be,  
25 but that opinion has no official standing.

26 THE CHAIRMAN: Does that matter Mr. Hyslop?

27 MR. HYSLOP: It could I think. It may not  
28 in many cases, but it could.

29 THE CHAIRMAN: I have, I think, always heard  
30 that the Department has been most meticulous in respecting



17 1 any opinion given by its officers.

2 MR. HYSLOP: Well, I can't say I have found  
3 any example to the opposite, but from a legalistic  
4 point of view anyway I think that the position is that  
5 the officer doesn't in any way bind the Department.

6 THE CHAIRMAN: The price you would pay, I  
7 think, for a more legalistic approach to it is a  
8 great deal more time and difficulty in achieving the  
9 same result, because it would seem pretty clear that  
10 they would not be prepared to assess, or do the same  
11 thing as assessing, without a great deal of detailed  
12 information.

13 MR. HYSLOP: I agree that the same information  
14 would have to be supplied as on an assessment. I can  
15 quite see your point, that there would be a great deal  
16 of excess work involved, but perhaps it is not really  
17 excess work. It is just doing the same work at an  
18 earlier point.

19 MR. GRANT: In the United States I think they  
20 give you advance rulings which are binding.

21 MR. FERRY: No. It is not binding, and this  
22 can work to the advantage of both sides incidentally.  
23 The American taxpayers sometimes find that they have  
24 told the inland revenue far more in hindsight than they  
25 had told them in requesting a ruling.

26 MR. HYSLOP: I am not looking to the benefit  
27 to the taxpayer, but for a great deal more certainty in  
28 regard to the Act.

29 THE CHAIRMAN: I am extremely worried about  
30 suggesting any departures from what we are now doing unless



18 1 it is very clear that there is a much better route to  
2 take. My experience has been from what I have heard  
3 here that what we now do is a fairly reasonable proced-  
4 ure. I have seen difficulties arise under it, but  
5 the whole thing goes, and mostly we get answers, and  
6 we get them fairly quickly I think. I don't know what  
7 happens here. You are a long way from Ottawa. Do answers  
8 take a long time to get here? Is that the case?

9 MR. HYSLOP: No, I don't think so. I think  
10 the Department is very obliging, either in making their own  
11 minds up quickly, or in getting a quick answer from  
12 Ottawa. I just think that in some major cases it might  
13 not work well, simply because of the fact that the  
14 opinion given by the Department officer is not in any  
15 way binding. I am trying to shut the stable door before  
16 the horse is gone, rather than after.

17 MR. PERRY: I think there is a practical  
18 difficulty in administration here. The Department has  
19 expressed its view in public that they regard this as  
20 the most highly skilled function that they perform. Their  
21 most able and advanced men would have to be put into this  
22 ruling section, and it is well known that they don't  
23 have a good supply of able and experienced people as  
24 it is now. I think they would take the attitude that  
25 this problem would have to be surmounted first, that  
26 they would need quite a large core of fairly good  
27 people just for this purpose. And the fairly good  
28 people are now busily engaged in administering the  
29 tax as it stands.

30 MR. HYSLOP: Yes, I quite see your point Mr.



191 Perry, and I realize that this suggestion of mine is  
2 largely theoretical, and perhaps even a little naïve.

3 MR. PERRY: I think, Mr. Chairman, we might  
4 sound as though we are pummelling this idea a bit,  
5 but it has been so many times that we are just anxious  
6 to see what substance there is to it.

7 THE CHAIRMAN: I think there are a lot of  
8 people in agreement with what you put forward, and we  
9 are really going at it because it is much too easy  
10 to accept these things readily. I think if I were  
11 in your shoes I would probably be saying exactly the  
12 same as you are, but on the other hand we want to bring  
13 out the truth of the matter, and see what is really  
14 best under the circumstances. I can really see more  
15 difficulties arising as we go along and along this  
16 course.

17 MR. HYSLOP: Yes, I can realize it.

18 THE CHAIRMAN: Moving on to (f), do you really  
19 think there is serious need to increase the limits on  
20 the retirements savings provisions at the present time?

21 MR. HUNTER: Mr. Chairman, it was my feeling  
22 that this was an attempt to sort of flatten the curve  
23 where one man's income may be evenly distributed over  
24 his life, and another one's may reach a high peak, maybe  
25 in his thirties, or in his early age. That is all I  
26 had in mind.

27 THE CHAIRMAN: Do you think there are many  
28 cases of people whose ambitions are in any way thwarted  
29 because of the limits? Do you run into many cases your-  
30 self?



1 I gather the impression that this savings  
2 plan is not used to the extent which was contemplated.

3 MR. HUNTER: In my experience it is used  
4 mainly by doctors, dentists, and possibly lawyers.

5 THE CHAIRMAN: And if it were 15 per cent  
6 instead of the present limits, you think they would  
7 buy more do you?

8 MR. HUNTER: I think so, yes.

9 THE CHAIRMAN: And if the present tax rates  
10 were reduced to say a top rate of 50 per cent, would  
11 that make any difference?

12 MR. HUNTER: Not to these particular people  
13 I am thinking of. That would probably be their maximum  
14 rate, 45, 50 per cent.

15 MR. PERRY: I see that you make no mention  
16 of a dollar maximum. If this recommendation were to  
17 be taken precisely as stated --

18 MR. HUNTER: I think the maximum dollar value  
19 should be increased in proportion.

20 MR. PERRY: 50 per cent higher?

21 MR. HUNTER: 50 per cent higher.

22 MR. NESBITT: Mr. Perry, do you not agree that  
23 under the current regulations a person is 10 per  
24 cent or 2,500, whichever is the lesser?  
25 I believe if a person is making \$30,000 his tax structure  
26 I would say would be relatively high. Why not go the  
27 full 15 per cent of 30,000? Why cut him off at  
28 2,500 under the present regulations, or even under the  
29 present regulations why not make it a straight 10 per  
30 cent? If a person is making \$30,000 and he wants to join



1 a savings plan, in all probability if he watches his  
2 pennies he could probably invest quite well. He is  
3 caught in a position where he making \$30,000 a year,  
4 which I don't ever expect to make, I must confess,  
5 but what is to prevent him from putting in three  
6 thousand of thirty? Why cut it off at twenty-five?  
7 I see no reason why the Tax Department chose 10 per  
8 cent or 2,500, because how many people are making over  
9 25,000 that would actually affect the income of the  
10 Tax Department? It seems to me that the additional  
11 five hundred dollars on a 10 per cent basis would be  
12 a very small drop in a bucket compared with the tax  
13 we are getting out of the 30,000 in any event.

14 THE CHAIRMAN: I have an idea that the limits  
15 were imposed to try to seek equity as between employed  
16 people and self-employed people. There are limits under  
17 an employed pension plan, and I suppose these limits  
18 were an attempt to relate them to some extent or other,  
19 and I think you will agree that there should be limits  
20 of some kind.

21 MR. NESBITT: I am not so sure actually Mr.  
22 Carter. When you are dealing with so small a percentage  
23 as 10, particularly when on a contributory scheme for  
24 example, it is 10 per cent, or 1,500, and if you wish  
25 to go to additional benefits by going into your own  
26 retirement savings plan, either through the insurance  
27 scheme or the insurance may be assigned, in which case  
28 the premiums I understand are up to the minimum or  
29 maximum amounts, or on the other hand through the normal  
30 registered retirement plans of the trust companies,

the maximum is 10 per cent of 1,500 where it is a contributory plan, or 25 per cent where it is not a contributory plan.

MR. GRANT: Isn't it possible, Mr. Nesbitt, that the Department, when they first decided on this, may have had an eye to the loss of revenue, the immediate loss of revenue, which this plan would entail, because you would agree that this is not a tax exemption. It is a means of deferring the payment of tax. The tax is paid ultimately when the pension is paid, but its advantage to the participant lies largely in the fact that he is likely to find himself in a lower tax bracket at pensionable age than he is in when he is contributing to this retirement pension plan, and therefore if the government were to put an unlimited ceiling on the amount which he could put in, there could be a very substantial immediate loss of revenue from income, could there not?

MR. NESBITT: Well Mr. Grant, I'm not quite sure if I understand what you meant when you said unlimited amount. I am still assuming that there is a restricted amount of 10 per cent, which to the normal person who is making six or seven thousand, it is six or seven hundred dollars, and his normal tax rate may be around 18 per cent, and perhaps at time of retirement he may fall back in a 13 per cent bracket, which is fine. If the same 10 per cent still applies to a person making 30,000, and there aren't too many people doing that, the contribution of 3,000, still applying the minimum of 10 per cent, is still not that much greater, because the amount involved is only 500



231 dollars out of 30,000.

2 I am not saying that there should be no  
3 minimum at all, because as you suggest perhaps a  
4 person making 30,000 can live on five, and will plow  
5 20,000 a year into a retirement plan, and thereby  
6 probably get away with paying no tax at all.

7 MR. GRANT: In effect you say that you would be  
8 in favour of, if the 10 per cent is to be retained,  
9 of eliminating any ceiling?

10 MR. NESBITT: Right, yes.

11 THE CHAIRMAN: A fixed dollar amount is what  
12 you have in mind?

13 MR. NESBITT: Remove the fixed dollar amount  
14 and make it percentage.

15 THE CHAIRMAN: I think I would quarrel with  
16 that, because I can see a man getting a hundred thousand  
17 a year being entitled to deduct ten thousand dollars.  
18 The man who earns a hundred thousand dollars doesn't  
19 need such a reduction, I don't think. He should be  
20 able to save a lot more than the fellow earning \$20,000.  
21 Therefore I would have thought that it does need a fixed  
22 dollar limit, and I don't think that I would like to see  
23 it thrown open to the extent that you suggest, at least  
24 not at the present time.

25 I think that I might say that irrespective  
26 of what we are thinking of, it seems obvious that this  
27 whole matter of retirement plan and pensions and so on  
28 is going to have to be very closely reviewed by the  
29 federal government in view of provincial legislation,  
30 and I would be surprised if we have the same thing with



241 us for a very long time.

2 MR. NESBITT: Yes, I think that would be the  
3 case, because there are too many schemes in the making,  
4 both federally and provincially, where any recommendation  
5 which might come up toward increasing the contributions  
6 from 10 to 15 per cent, or removing any limit, might be  
7 completely innocuous a year from now.

8 THE CHAIRMAN: That being so, shall we move  
9 on to (g)?

10 MR. GODDEN: Under Section (g), Irrevocable  
11 Gifts to Minors, Section 22, we have Mr. Nesbitt to  
12 reply.

13 MR. GRANT: As I understand the brief on this  
14 point the exception that is now taken to the provisions  
15 of the Act is that a father, in making a gift to, let's  
16 be specific, to his son, even if it is of an  
17 irrevocable nature, the father is still accountable  
18 for the income of that gift.

19 THE CHAIRMAN: For a minor.

20 MR. GRANT: For a minor.

21 MR. NESBITT: Under 19.

22 MR. GRANT: Under 19. And the recommendation  
23 is that that be revoked in its entirety.

24 MR. NESBITT: Well, actually I have had second  
25 thoughts from a practicable point of view only. I am  
26 not so sure that Section 22 should be revoked in its  
27 entirety, but I do feel that the portion dealing with  
28 irrevocable gifts to minors should be removed, for a  
29 number of reasons.

30 In the first place, judging by the briefs which



25 1 you learned gentlemen have already received, I think  
2 this is probably the first reference made to Section  
3 22. I don't know. This is probably not too much of  
4 a concern to too many people. I am particularly con-  
5 cerned because I don't think there is one per cent of  
6 the population knows that Section 22 is there, and I  
7 am willing to gamble that there are many gifts floating  
8 around Canada, either by trust or otherwise, sitting  
9 there, where income is accumulating to the gift's  
10 benefit, that the father has no idea that he has to  
11 claim as being his own. The stock certificate is  
12 registered in a minor's name. As you, Mr. Grant  
13 probably know as General Manager of the Nova Scotia  
14 trust, regarding guardians and transfers, if you have  
15 a hundred dollars worth of stock certificates and it  
16 costs you a hundred dollars to get the guardian  
17 appointed, it hardly seems worthwhile to get the  
18 transfer certificate.

19 I know of many examples where parents are  
20 registering stock in their name. The dividends are  
21 accumulating to a savings account for them, and I  
22 feel reasonably certain that they don't know that they  
23 have to put that income in as their own.

24 It also complicates matters to a great extent  
25 from our relative points of view as trust companies,  
26 because we have to explain to them, in setting up a  
27 nice little trust fund for their child, that the income  
28 is going to be theirs, and they get quite adamant when  
29 they think we are trying to pass something on to them  
30 that they don't particularly want. By the time you get around



1 to explaining the relative merits, or demerits of Section  
2 22, of the person is left with a certain amount of  
3 confusion as to whether you didn't write Section 22  
4 yourself, and it does lead to complications.

5           If there is already a certain trust set up,  
6 generally speaking a grandfather or a father, or  
7 somebody, will set up X.number of dollars to the  
8 trustee to be held in trust for the child. I think you  
9 will find now most wills say 25, but even assuming  
10 21, this is fine, but he sets up a thousand dollars,  
11 and the parents say the income therefore is not taxed  
12 in the hands of the donor. The parents, or favorite  
13 aunt, as the case may be, say a thousand dollars  
14 wouldn't put him through college. So they add to the  
15 little trust set up by their late father, so that when  
16 he gets to 21 he will really have something to start  
17 off with. You are then in the position of having  
18 split the ready income down, giving half to the child  
19 perhaps, declaring your ET3's for a portion of it,  
20 and turning around and sending her the other portion  
21 and saying this part is yours dear. You declare it and  
22 I really don't think that there is that much income  
23 to worry about that the tax department can't throw  
24 out the irrevocable aspect of it.

25           Now, the revocable aspect of it, which is  
26 Section 22 (b), and even this Section is confusedly  
27 drafted. They start off Section 22, irrevocable  
28 gifts to minors, and when they get into revocable  
29 gifts, which are not gifts at all, because in order to  
30 be able to qualify as a gift you have to get rid of it --



271 I must admit that I perused over both Sections, and  
2 thought one sort of counteracts the other, and eventually  
3 my learned friend straightened me out, and I must  
4 confess that I eventually convinced myself I was wrong,  
5 which is not easy to do.

6 MR. GRANT: What you are pointing out is  
7 the inequities of this Section when applied to a bona  
8 fide transaction in the nature of a revocable trust?

9 MR. NESBITT: Right.

10 MR. GRANT: But what you will agree with me  
11 on, I think, is that throughout the whole of The Income  
12 Tax Act it is drafted so as to, with a very wary eye  
13 on family relationships, for instance take the case  
14 of a husband who is carrying on a business as a partner-  
15 ship, and he employs his wife, maybe in the nature of  
16 a grocery store, a corner grocery, or something of that  
17 sort, well, he is not allowed to charge the wages for his  
18 wife as expenses, he regards that as an inequity, and  
19 in many cases it is, but it involves this whole family  
20 relationship, and what no doubt the drafters of this  
21 particular Section of the Act had in mind was that  
22 while an irrevocable trust could be set up on a bona  
23 fide basis, and it would have all the elements of  
24 justice and equity in it, it would open the door for  
25 abuses as well, because it would open the door to income  
26 -splitting, whereby the father would set up this trust,  
27 but he would use the income nonetheless as if it were  
28 his own, and that is no doubt what the authorities  
29 have had in mind to quite an extent in framing this  
30 legislation. Would you not agree?



281 MR. NESBITT: Well Mr. Grant, to a certain  
2 extent, I agree with you, but I feel sure that is nothing  
3 that can't be plugged. If, as you mentioned, there is  
4 some legal phraseology, irrevocable trust set up at  
5 an arm's length transaction, the income re-invested,  
6 and if you file with the tax department the trust  
7 deed, as you normally do with any irrevocable trust  
8 where you have to declare the income, when you file your  
9 T3, where the income is on a trust irrevocable, you  
10 must file your trust deed because the Department has  
11 all the documentation available to it, and as usual  
12 the Department is free at any time to come down and ---

13 THE CHAIRMAN: I would have thought that  
14 the real content in Section 22 is quite clear as regards  
15 parents and child as opposed to a minor, who is not ---

16 MR. GRANT: Locus parentis?

17 THE CHAIRMAN: That is right. It seems to  
18 me there is an entirely different relationship where the  
19 child is supported and where the child is not supported.

20 MR. NESBITT: Yes, I agree with you there.  
21 This first Section applies to anybody who makes a gift  
22 to any person.

23 THE CHAIRMAN: It is too broad I think .

24 MR. NESBITT: I agree. I must confess, I don't  
25 mind the revocable nature, where a certain amount of  
26 retention is in the donor, by either being able to  
27 direct the individual who is to get it, and could quite  
28 conceivably direct it back to himself. I think that  
29 that perhaps should be retained, but as Mr. Carter  
30 so rightly mentioned it is quite broad, and can be made



29 1 easier from our points of view.

2 MR. GRANT: It might very well be limited  
3 to those cases where you have a situation of, as the  
4 law would term it I believe, in locus parentis.

5 MR. NESBITT: Unless you can prove, I suppose,  
6 that the parents have really given up all control.

7 MR. GODDEN: Paragraph 5 Mr. Chairman,  
8 Federal Sales Tax.

9 THE CHAIRMAN: And also page 14.

10 MR. GODDEN: Right. To reply to this Section  
11 is Mr. Eric Knight.

12 THE CHAIRMAN: I think we understand the point  
13 here Mr. Knight. There is one question raised. It is  
14 suggested that this might be cured by the issuance of  
15 wholesale licences to people ultimately selling the  
16 rope, and that refunds would only go back one step, I  
17 think, instead of going back to the manufacturer?

18 MR. KNIGHT: But I believe, Mr. Chairman,  
19 that there is a restriction on the issuing of  
20 wholesalers' licences. In other words, they have to have  
21 a certain volume of business before they can obtain it,  
22 and a certain percentage of their sales must be in  
23 the tax-free field, and possibly this is peculiar to  
24 Newfoundland, but with the, I don't know how many  
25 little settlements we have around Newfoundland, but they  
26 are all fishing settlements, and possibly every fourth  
27 man in the settlement classifies himself as a merchant,  
28 though in effect he is an honest to goodness genuine  
29 fisherman.

30 This blanket certificate was acceptable up to



301 a very short time ago here, and it was -- the regulation,  
2 it is true, was on the statutes, but it was never  
3 enforced, and the fact that Newfoundland was primarily  
4 a fishing country was recognized by the Customs Department,  
5 and its interpretation and application conflicted with  
6 the Excise Tax Division application of it. The  
7 Customs was permitting, let us say merchant A to import  
8 rope for sale, or for his own use, free of tax. I am  
9 speaking only of over one and one half inch diameter  
10 rope. That same merchant would buy from the manufacturer  
11 here, and the Excise Tax examiners would come up and  
12 say oh, no, he can't get it from the manufacturer tax-  
13 free, with the result that it was cheaper for a merchant  
14 to import the rope, save the tax, and pass on the, I  
15 hope, the savings to the fisherman concerned.

16 Now the Excise has influenced the Customs  
17 Department to adopt the same procedure as the Excise  
18 was doing, and I feel, I know in fact, that this three  
19 months exemption certificate is acceptable, and is still  
20 being accepted in other parts of Canada, even though  
21 this regulation has been unearthed and put into operation  
22 once again.

23 THE CHAIRMAN: This blanket exemption would  
24 apply only to those merchants who could show that most  
25 of their sales are to fishermen?

26 MR. KNIGHT: Yes, that is correct. Primarily  
27 these settlements are doing nothing else but fishing.  
28 Perhaps .1 per cent of the rope that these particular  
29 merchants would purchase would be used for other than  
30 fishery purposes.



311 THE CHAIRMAN: Would the merchants who  
2 didn't qualify be at any disadvantage because of  
3 the blanket exemption to their competitors?

4 MR. KNIGHT: Well, I think that in the  
5 fishing areas as such there should be some discretionary  
6 power given to the supplier, the manufacturer if you  
7 wish, that the settlement use --- it is recognized  
8 as a fishing area, and there is no other activity there --  
9 you should be permitted to accept this certificate.  
10 As a matter of fact, common sense will say that there  
11 is no need of a certificate in that case, but we have  
12 to obtain the certificate of the end user, and of course  
13 you have five or six, or maybe more, so-called merchants  
14 involved between the manufacturer and the end user,  
15 and try and get that tax back down the line again. It  
16 is putting the manufacturer, I think, to disadvantage  
17 here in Newfoundland, and has also driven up the cost  
18 of the fishing operations.

19 THE CHAIRMAN: Thank you.

20 MR. PERRY: I was just wondering if Mr. Knight  
21 would have any idea of any other reason, apart from the  
22 conflict with the Customs administration, for the  
23 withdrawal of this practice?

24 MR. KNIGHT: It originated, Mr. Perry, with  
25 the Excise examiners department, the Excise Tax  
26 Division, rather than the Customs. Apparently this,  
27 as I said earlier, this statute, or this regulation, has  
28 been written into the Act over many, many years, but  
29 it was recognized that Newfoundland, being 90 per cent  
30 fisheries at that time, and still is I suppose, in the



321 use of rope, that the rope was being used, and a blind  
2 eye was turned to the requirement of having end-user  
3 certificates obtained at the time of purchase. It is  
4 very, very difficult to obtain those certificates in  
5 the first instance, due to the lack of education, if  
6 I can say that with all due respect to our fishermen.

7 MR. PERRY: But you said that this practice  
8 is continuing in other parts of the country.

9 MR. KNIGHT: As I understand it, sir, yes.  
10 It has not been enforced. I can't prove that by  
11 affidavit because naturally it is impossible to get  
12 such a thing.

13 MR. GODDEN: Mr. Chairman, paragraph 6, the  
14 Estate Tax Act, and all these Sections from (a) to  
15 (h) starting on page 15, sir, all these Sections will  
16 be replied to by Mr. Jim Nesbitt.

17 THE CHAIRMAN: Thank you, fine. You suggest  
18 that bequests in the form of annuities be exempt  
19 from tax. Is that the first one Mr. Nesbitt?

20 MR. NESBITT: Bequests in the form of  
21 a --

22 MR. GODDEN: It is page 6, Mr. Chairman.

23 THE CHAIRMAN: Yes. Well, on page 6 I see  
24 that death benefits in the form of a pension or annuity  
25 should be exempt from estate taxes.

26 Don't you feel that if that were the law  
27 that it would cause people to favour that form of  
28 bequest, and write their wills almost exclusively that  
29 way? Perhaps you do, and perhaps you feel that it ought  
30 to be encouraged. But the law would then be far from



331 neutral. It would be in the position of encouraging  
2 people, I should think, to leave their funds in the  
3 form of an annuity.

4 MR. NESBITT: With respect to the annuities  
5 et cetera and pension and death benefits, the recommend-  
6 ations made with respect to that is, if you wish, we  
7 know the problem exists, because perhaps the annuity or  
8 death benefit which only gives us X number of dollars --  
9 but because of the age of the person puts so much of  
10 a burden on the estate that perhaps if the person  
11 were in such a position that he didn't save too much,  
12 and bought a house and had a terrific death benefit  
13 or annuity with a company, you might be in the position  
14 of having to sell the house and live on the annuity.

15 THE CHAIRMAN: We have had a number of  
16 suggestions. Some have been to the effect that  
17 succession duty should be deferred, and paid at the  
18 time of the receipt of the annuity, or that it should  
19 be related to the life expectancy of the beneficiary,  
20 but I don't think we have had a suggestion that estate  
21 taxes should be completely wiped out.

22 MR. NESBITT: I don't think that is the  
23 contention in this particular Section. I think that it  
24 is really -- now, I must confess that Mr. Hunter  
25 doesn't agree with this particular Section, because I  
26 see the pitfalls here, but we are trying to impress  
27 that a problem exists. The general thing here is that  
28 if there is a pension or death benefit, and if it comes  
29 down in the form of a lump sum, that the lump sum be  
30 added to the estate and taxed accordingly. If it is going



341 to be by way of X number of dollars per month, that  
2 then it not be added to the estate, but be treated as  
3 income in the hands of the receiver.

4 This, of course, places an unwarrantable  
5 burden on the person receiving it, because he would be  
6 taxed at a straight income tax rate, which of course  
7 we realize is a hardship.

8 In the alternative, if the person elects as  
9 to the method by which they wish to receive the money,  
10 and the proper pigeon hole be allocated to that  
11 particular method, either add it in as a lump sum,  
12 or pay the tax on it. Now, this is probably not the  
13 answer, but it is one method by which at least you do  
14 give an election to somebody.

15 THE CHAIRMAN: Yes. I see the principal  
16 sum would then be included as income.

17 MR. NESBITT: Unfortunately, yes, but I must  
18 confess that along the way -- you see, if there is  
19 such an election the person might have an advantage, because  
20 he may wish to have the estate pay the tax on it, then  
21 he can take the lump sum out and pay only on the interest,  
22 but at least he has got a chance of being able to say so.

23 MR. PERRY: Couldn't it even be better than  
24 that with a purchased annuity where the election could  
25 be made for a series of payments at the time of death,  
26 the estate cleared up, and you take the cash surrender  
27 value?

28 MR. NESBITT: True.

29 MR. PERRY: So you get off without anything.

30 MR. NESBITT: That is a wonderful idea. I think



351 the main reason for putting this in is that I really  
2 think that a problem does exist in certain instances  
3 where hardships are there. Now, what the answers are  
4 only you gentlemen will be able to come up with through  
5 more learned people than myself, and probably people  
6 with more experience, being able to make recommendations.

7 THE CHAIRMAN: We do recognize the problem,  
8 I can assure you.

9 MR. PERRY: We have heard from two or three  
10 female organizations and they are very het up on this  
11 subject.

12 MR. GRANT: In 6(b)(i), Mr. Nesbitt, which  
13 reads:

14 "If the death benefit is a lump sum that  
15 "the amount be included in computing the  
16 "aggregate net value of the property passing;"  
17 Well, is that not so now? I think it is.

18 MR. NESBITT: Yes it is, but (i) then merges  
19 into (ii)

20 "If the death benefit be a pension or annuity,"  
21 that no commutation be made, and (iii) is where there  
22 is an option between the two.

23 In other words, what we are doing now is  
24 saying that in one respect if the lump sum is there we  
25 don't want to change anything. If there is an annuity,  
26 don't commute it by adding a lump sum to the estate.

27 MR. GRANT: Your suggestion is new to us,  
28 that the annuity not be considered as an asset of the  
29 estate for estate tax purposes, but that the annuity be  
30 taxed as income. At the present time that part which is



34 principal of course is accepted.

2 MR. NESBITT: Yes.

3 THE CHAIRMAN: It might be a solution, I  
4 don't know, the inclusion of principal for that purpose  
5 may be logical under the circumstances, because one  
6 is then converting something from a capital asset to  
7 income, and logically it ought to be taxed.

8 MR. NESBITT: Well, that was my initial  
9 feeling, but Mr. Hunter is quite down on paying tax  
10 on capital, which to a certain extent I agree with,  
11 but I think that normally if the amount of income is  
12 twelve hundred a year, which they themselves didn't  
13 build up, capitalize -- a tax on it might be what,  
14 if she has got her exemptions of eleven hundred?

15 MR. PERRY: If it is a pension there is no  
16 breakdown on the interest and the capital.

17 THE CHAIRMAN: It may be logical. Yes,  
18 I am not sure.

19 Moving on to (c), Jointly Held Insurance  
20 Policies. I am puzzled. I have not seen a joint  
21 insurance policy of this kind. Are there many?

22 MR. NESBITT: Mr. Carter, I am equally as  
23 puzzled. I have not seen too many either, but I know  
24 they exist because it says so in the Act.

25 THE CHAIRMAN: Does it? You are ahead of me.

26 MR. NESBITT: 3(1)(m).

27 MR. PERRY: It is there of course. We just  
28 wondered in practice how often this kind of thing is  
29 encountered?

30 MR. NESBITT: Well, if it does not come up too



37 1 often, perhaps the Tax Department will not be reluctant  
2 to grant us some benefit.

3 MR. GRANT: Perhaps it is in the Act to  
4 eliminate the writing of such a policy.

5 MR. NESBITT: This is quite a situation then,  
6 3(1)(m) :

7 "owned either alone, or jointly, or in common  
8 "with any other person ---"

9 THE CHAIRMAN: Well, if they are not common,  
10 I suppose we can leave the Section stand and forget about  
11 the whole matter.

12 MR. NESBITT: I suppose that is one answer,  
13 but if it does arise, I can assure you there is going to  
14 be quite a few discussions on the matter.

15 MR. PERRY: Could you just tell us whether  
16 you have ever seen one, Mr. Nesbitt? I am not trying to  
17 embarrass you. I am just wondering?

18 MR. NESBITT: I don't know whether I have.  
19 It seems to me that I have, but I can't just pinpoint it.  
20 I may not have seen it here, but I may have seen it in  
21 our Winnipeg office, and then I was transferred and  
22 never did find out what happened.

23 THE CHAIRMAN: Deduction of fees, legal and  
24 executors, in computing the amount of the estate.

25 This surely represents quite a serious problem,  
26 because at the time of arriving at the estate one  
27 doesn't know what the fee is in most cases. I suppose  
28 it would be determinable if there were schedules, set  
29 fees?

30 MR. NESBITT: I think there are a number of



381 ways it can be done. The first way, in some cases there  
2 is an agreement oftentimes between the testator and  
3 the executors as to what the fee will be, and if it  
4 is reasonable I think the estate tax should allow it.

5 MR. GRANT: Is this the legal fee now?

6 THE CHAIRMAN: Yes.

7 MR. NESBITT: I am speaking of executors'  
8 fees. Legal fees, I think there are scales in most  
9 provinces as to what one charges for being solicitor  
10 to an estate, and in any event certainly if necessary  
11 they can certainly be taxed.

12 Now, it seems to me that when one makes a  
13 return, one can certainly prove the existence of having  
14 paid either to the executors or to the legal services.  
15 Eventually -- now, if you wish to put in an arbitrary  
16 amount of what you think it is going to cost, and then  
17 when it finally comes down file it and say this is what  
18 we had to pay, and either get or pay the difference,  
19 even if it is a year later, but I do think that there  
20 should be at least an opportunity, and as a matter  
21 of fact I think there should be legislation permitting  
22 the deduction of this.

23 THE CHAIRMAN: I wonder why you feel so  
24 strongly? It would seem to me that if the revenues were  
25 affected by the deduction of these fees, the rate of  
26 estate tax would probably be increased to compensate  
27 for it. If that were the case, would anybody gain, or  
28 lose? I would have thought that roughly they would all  
29 come out about the same.

30 MR. NESBITT: I agree Mr. Carter that there is



391 going to be to a certain extent a certain amount of  
2 loss of revenue if a person has to pay tax at 50  
3 per cent, and all of a sudden there is a 40 thousand  
4 executors' fee going through, they are going to lose  
5 twenty thousand dollars.

6 I don't like to be prejudiced about this,  
7 but I think that is proper. Estates are taxed high  
8 enough as they are through all the other gimmicks  
9 that are going through, and I think there should be  
9 10 reasonable charges. Otherwise why allow funeral  
11 expenses, as opposed to legal fees?

12 THE CHAIRMAN: You have got a point there.

13 MR. GRANT: I have always thought that  
14 legal fees should be deducted in arriving at the tax  
15 value of the estate. Myself personally, I have always  
16 felt that in principle. It could be difficult in  
17 practice, because unless there is a schedule of  
18 fees determined based upon the size of the estate, and  
19 there the practice varies from province to province,  
20 as to what a solicitor does for an estate in earning  
21 his fees, and I think it varies probably to some  
22 extent as to who is serving as executor. Sometimes  
23 the executor will depend to a much greater extent upon  
24 the solicitor than another executor might, and therefore  
25 if you took a fixed schedule of fees, it could be  
26 an injustice to one solidtor, and it could overpay another.

27 MR. NESBITT: On that point these are really  
28 in effect, I don't like to say fictional figures, but  
29 it has no bearing on what the solicitor actually  
30 receives. If we utilize this method, that the Tax Depart-



401 ment set its own scale of fees as to what the solicitors  
2 may deduct from the estate -- Now, whether he is going  
3 to get it or not is immaterial. What the scale of  
4 fees is in a certain province is immaterial. The  
5 solicitor is going to get his money, but for purposes  
6 of deduction he may deduct X dollars. You might say  
7 that for the same reason a person is automatically  
8 exempted forty thousand, if he has got a widow, twenty  
9 thousand. If he has got four children, ten thousand  
10 apiece. It merely means that the solicitor may deduct  
11 in computing his aggregate net value, the following,  
12 and if you wish you can even throw in executors' fees  
13 on a certain scale to be determined by the Tax Department.

14 THE CHAIRMAN: Well, Mr. Nesbitt, I suggest  
15 to you that if this were a recommendation we made in  
16 a report there would be a very strong lobby by the  
17 Bar Association that it should not be there, because  
18 it would imply the amount they were entitled to, and  
19 they would have a hard time persuading the executors  
20 that they should get a bit more.

21 MR. GRANT: And if it were too low it would  
22 bring in the type of representation Mr. Carter refers  
23 to, and if it were fixed on what would be regarded as  
24 a realistic figure, say for the Province of Ontario,  
25 that might be much in excess of what a solicitor would  
26 be receiving, the tariff that he would be receiving say  
27 in the Province of Nova Scotia. In Ontario I believe that  
28 the solicitor of an estate assumes the responsibility  
29 of completing and filing the estate tax returns, both  
30 federal and provincial, which is quite a task, whereas



411 that is not so in other provinces.

2 MR. NESBITT: That is quite true, there  
3 would be a difficulty in arriving at a schedule.

4 THE CHAIRMAN: You may be sure that the  
5 Tax Department would establish a fairly low base too,  
6 I would think.

7 MR. NESBITT: In certain instances you are  
8 reluctant to let the solicitor fill it out, because  
9 you feel you know a lot more than he does, and you fill  
10 it out anyway.

11 MR. GRANT: I have no comment on that.

12 MR. PERRY: I think this is a much broader  
13 issue of the deductability of legal fees under all  
14 taxes. They are not allowed now under the income  
15 tax for example.

16 THE CHAIRMAN: Are you correct? I have  
17 an idea that you may deduct advice you receive in the  
18 preparation of income tax returns.

19 MR. PERRY: But at any rate I think there  
20 is a more general question here, which I am sure has  
21 some influence on the Department's thinking in this  
22 area, which is not a very broad one itself.

23 THE CHAIRMAN: Moving on to personal exemptions.  
24 You feel that they should be increased. We have had  
25 representation to that effect, some of it computing  
26 the effect which such increases would have on the  
27 revenue, and in fact it is surprising, the effect to  
28 which they can be increased without increasing the  
29 government's take very substantially.

30 Will you tell us how you got at the increases



21 which you recommend?

2 MR. NESBITT: To be perfectly frank Mr.  
3 Carter, I recommended that which I thought would be  
4 acceptable to the Tax Department.

5 THE CHAIRMAN: Good.

6 MR. NESBITT: I have seen recommendations  
7 where the initial exemptions were twenty thousand.  
8 Four years ago they moved up to twenty-five thousand,  
9 and forty thousand fifteen years ago, and have not  
10 been changed since. I have seen recent recommendations  
11 made to the Honourable Members that a hundred thousand  
12 should be the amount. Seventy-five thousand. The  
13 problem that a woman should not be placed in the same  
14 position as a male. I personally felt that if they  
15 wish to stay within reasonable bounds, that the minimum  
16 be a straight sixty thousand, no additional for --  
17 no twenty thousand for the widow, or twenty thousand  
18 for the widower, but a straight sixty thousand for the  
19 basic estate, and retain ten thousand for each dependent  
20 alive, which would include the widow, the children,  
21 and if a person qualifies under Section 26(1)(a), which  
22 I believe is in The Income Tax Act with respect to  
23 going to college et cetera, that if the person is success-  
24 fully going to college and there is quite a drain on  
25 funds, that that person also be included, and it would  
26 fall in line with the practice currently in existence  
27 with the Department of Inland Revenue.  
28 My recommendation with respect to increasing  
29 the rates is what I think would be acceptable to the  
30 Income Tax Department, where an awful lot of recommendations



431 are going through in this nature.

2 THE CHAIRMAN: The certificate of discharge.  
3 Do you know why we don't have such a certificate at  
4 the present time? I was rather surprised to find this  
5 was the case.

6 MR. NESBITT: I have tried to find out why  
7 they removed such a matter when they effected a change  
8 from The Succession Duty Act to The Estate Tax Act.

9 THE CHAIRMAN: You think it is an important  
10 matter do you?

11 MR. NESBITT: Yes, I certainly think it is.  
12 I notice that, for instance, I just received a matter  
13 of a stock transfer at the office, and I notice that  
14 under the new B.C. Succession Duty Act the release on  
15 the shares is actually a release and discharge, not only  
16 on the shares, but everything to do with it. Everybody  
17 is released, and the shares can be carried on. This  
18 is a very nice thing, whereas all we get from the  
19 Federal Estate Tax Department is a consent to the  
20 transfer of property, which really doesn't say a thing.

21 MR. GRANT: I am strongly under the impression,  
22 Mr. Chairman, that the reason that they have eliminated  
23 a certificate of discharge in The Estate Tax Act is  
24 because of the difference in the nature of the tax. That  
25 whereas under The Succession Duty Act it was the  
26 beneficiary who was charged with the payment of the  
27 duty, under The Estate Tax Act it is the executor who  
28 is charged with the payment of the duty, and it is a  
29 means of holding the executor liable.  
30



10/4- 1 It may be very unfair to the executor that  
2 he is placed in that position, but I think if the  
3 Department were to be heard on this, if they were to  
4 give their views on it, I believe that they would say  
5 it is because the executor is bound to discharge his  
6 duties, would feel if he does discharge them he has  
7 nothing to fear.

8 MR. NESBITT: It would seem to me that if  
9 any recommendation were to be made that at least upon  
10 the production of a release and discharge from a  
11 court, and filing with the Tax Department, that you  
12 may similarly receive such a release and discharge  
13 from the Estate Tax Department, or in the alternative  
14 after filing and paying your return, and having heard  
15 nothing after a period of one year, or two if you wish,  
16 then you may make application to the Tax Department  
17 for release and discharge.

18 MR. GRANT: I think myself that it is a  
19 point well taken, and I think I am surprised really  
20 that organizations such as the Trust Company Association  
21 have not made stronger representations to the Department  
22 to have this sort of thing, that I have any knowledge  
23 of at any rate.

24 MR. NESBITT: I believe they did make such  
25 a representation in 1958, where they had only seen  
26 the draft, and they recommended, they couldn't understand  
27 why the, you know, release and discharge, was removed  
28 from The Estate Tax, where it wasn't in The Succession  
29 Duties, and they may have made one more application or  
30 recommendation since then, but whether it was in the



45 1 proper channels, or before a Commission such as your  
2 Honourable Members, I don't know, but I would like to  
3 speak on behalf of the Association, but I don't think  
4 I can, but I know from our own point of view that  
5 an executor, be he a trust company, or be he an  
6 individual, should at least be placed in a position  
7 of being at least able to get a discharge.

8 MR. GODDEN: As explained previously, Sections  
9 11 and 12 were produced by Doctor Copes, who has been  
10 called out of the Province, and he is unable to answer  
11 this morning. So unless you have anything further,  
12 Mr. Chairman, all we have left to cover would be under  
13 paragraph 6, Sections (g) and (h).

14 THE CHAIRMAN: Minority shareholders. The  
15 provision here states that when there is a relationship  
16 minority shares should be deemed to be the controlling  
17 shares in the evaluation thereof.

18 You feel that this is incorrect and the  
19 Section should be revoked.

20 MR. NESBITT: I certainly think there should  
21 be some change. It is very broad, this blood, marriage  
22 and adoption. I know of certain instances where there  
23 are black sheeps in the family who own a couple of shares,  
24 and never even get close to the old boardroom, and upon  
25 the death of a person, if there were 50, 49 per cent  
26 held by a man and his wife, and the black sheep held 2,  
27 the black sheep is really much blacker, because all of  
28 a sudden he is placed in a position of control, and  
29 similarly when he dies the person holding the 5, 10, 25  
30 or even a small one or two shares, as the case may be,



depending on the capitalization, is placed in a position of not going back to the latest sale on an arm's length transaction.

I can think of cases where a local brewery's stock was selling for let us say \$150, but the Tax Department decreed that the controlling portion should be valued at say \$280. If he is a minority shareholder through blood relationship, and particularly where he has nothing to do with it, and is in some other business altogether, all of a sudden his value of shares is almost double what it should be.

I recognize that you will be faced with the situation where you can say how do you know that he wasn't going to throw in with his brother or his sister and vote this way or that, and I admit that there is a loophole, that if you can prove that he was adamantly against anything -- but you can imagine the amount of argument that goes with this with Tax Departments on the amount of proof they are going to require on it.

THE CHAIRMAN: Yes. This Section is mandatory, I presume, rather than permissive. The term is required to deem it as a majority holding, is it not?

MR. NESBITT: Yes, that is correct. That is my interpretation of it.

THE CHAIRMAN: Would you not accomplish what you are after if that Section were left there, but made permissive?

MR. NESBITT: Shall be determined --



47 1 THE CHAIRMAN: If the word shall were changed  
2 to the word may, would that accomplish what you are  
3 after?

4 MR. NESBITT: I think it would certainly make  
5 things an awful lot happier. It might place even  
6 the negotiation end of it between the Tax Department and  
7 the individual, or the estate, as the case may be,  
8 in a much happier position. The Tax Department would  
9 have a firm commitment of where it stands.

10 THE CHAIRMAN: Then we understand the point.  
11 The optional valuation date. This matter  
12 seems to recur pretty frequently. The point at issue,  
13 I think, is the length of period between the date of  
14 death and the optional valuation date. It is pointed  
15 out that if it was allowed to be some distance removed  
16 from the date of death it delays the administration  
17 of estates. If it were as much as a year, it is  
18 probable that little work would be done towards settling  
19 estates until the lapse of a year, and the administration  
20 of estates and the collection of taxes would be  
21 delayed.

22 Is there a shorter date which would serve  
23 the purpose and would not delay estate administration?

24 MR. NESBITT: I believe so, Mr. Carter. I  
25 put in one year there. I think six months you must  
26 file and pay with the Tax Department, six months from  
27 the date of death, and I must admit that in most cases  
28 you know whether you have the cash or not, whether you  
29 are going to have to sell these stocks and bonds.  
30 It becomes then a matter of speculation as to whether you



48 1 think the market is going to go up or go down. Eventually,  
2 within either a period of six months or a year, whichever  
3 the case may be, you are either going to have to sell  
4 or declare. There may be occasions where you all of  
5 a sudden find a few hundred extra dollars, in which case  
6 you don't have to sell them. You say all right we will  
7 take the valuation as of the date of death, but if you  
8 have to sell them there is a word in here. If the  
9 securities are sold within one year. If you wish to  
10 change that to six months, then the net conversion price  
11 should be the price submitted. At the present time you  
12 are just taking the situation where you actually sell  
13 them. There are your brokers' charges, and in certain  
14 instances your transfer charges, all of which to a certain  
15 extent decrease the price and the actual value of that  
16 share.

17 MR. GRANT: Yes, I agree that the term would  
18 have to be shorter, at least to me I think it would have  
19 to be shorter than a year, because otherwise you will  
20 run into a conflict with provincial legislation that  
21 a probate act for instance states that an estate may be  
22 closed within such and such a time, and shall be closed  
23 within such and such a time. That to extend this  
10 24 period could mean that it could have two ill effects.  
25 One is that the executor would be tempted to jockey  
26 with the shares. I don't think that should be so.  
27 I think that he should proceed with the administration  
28 of the estate in the same manner as if the valuation  
29 of the shares had no part in it, but if it so happens  
30 that the person dies at a time when he has a lot of



42 1 securities and the market is very high, then in three  
2 months, as often happens, the market drops, and the  
3 shares must be sold in order to realize cash, it strikes  
4 me as being an injustice to the estate that there  
5 should be a tax paid on the higher valuation, when they  
6 couldn't have been sold. The executor was not in a  
7 position to sell them. He couldn't make a transfer,  
8 yet the tax is based on that valuation on the high date.

9 There is a lot to be said for an optional  
10 date, provided it is close enough that it doesn't  
11 delay the administration of the estate, or conflict  
12 with provincial administration.

13 MR. NESBITT: If I may make a recommendation,  
14 I would change that one year to six months, and to  
15 comply with the estate tax maximum declaration date,  
16 and if this is an estate tax, and we are declaring  
17 values to them, then perhaps the two coincidentally  
18 will meet. I would say six months.

19 THE CHAIRMAN: Thank you very much. I don't  
20 think we have any more questions. You have answered  
21 us very fully indeed, and most helpfully. I think we  
22 have gained a lot from this morning's session, and we  
23 are very grateful to you.

24 I shall tell our missing members about this  
25 session, and how much they have missed that we have  
26 enjoyed.

27 We say thank you very much, and we hope that  
28 you are all successful in your regatta this afternoon.  
29 It has been most enjoyable.

30 MR. GODDEN: I would like to thank you, Mr.



Chairman, and your colleagues on behalf of this  
Committee from the Newfoundland Board of Trade.

As we said before, sir, our only regret  
is that you can't be with us for a little longer stay.  
Thank you very much.

---A SHORT RECESS.

THE CHAIRMAN: Mr. Secretary, are we ready?

THE SECRETARY: We are ready Mr. Chairman.  
The second brief this morning has been presented by the  
Newfoundland Estate Tax Committee. It was received  
on July the 8th. Mr. J.J. Greene, together with Mr.  
R. Leith, are here this morning. Mr. Greene is speaking  
to the brief, which I enter into the records as  
Exhibit No. 104.

---EXHIBIT NO. 104: Brief submitted by the Newfound-  
land Estate Tax Committee.

SUBMISSION OF THE NEWFOUNDLAND  
ESTATE TAX COMMITTEE

Appearances:

Mr. James J. Greene

Mr. R. Leith

THE CHAIRMAN: Good morning Mr. Greene and  
Mr. Leith. Rise or sit as you please. Some do one, some  
do the other.



511 We have read your submission. It is very  
2 useful indeed. We would like to hear anything that  
3 you care to say to it.

4 MR. GREENE: Thank you very much Mr. Chairman  
5 and members of the Royal Commission.

6 It is a privilege for Mr. Leith and myself  
7 to attend before the Commission this morning and to  
8 make a presentation of our brief. May I begin by  
9 saying that perhaps we could have no better illustration  
10 of the importance of taxation in the lives of us all  
11 than the fact that one of the most important days in  
12 the calendar of Newfoundland has been interrupted so  
13 that we may make this presentation on this occasion.  
14 We do reiterate the welcome which was expressed to you  
15 gentlemen by the Chairman of the Board of Trade's  
16 Committee, by Mr. Ayre, the Secretary Manager, and  
17 we do welcome you to Newfoundland, and we hope that  
18 you will enjoy your stay, and perhaps more important  
19 to your work, we hope that the presentations made to  
20 you today will be of some benefit to you in your  
21 further considerations.

22 Mr. Chairman and gentlemen: I might just  
23 say a brief word on the Newfoundland Estate Tax Committee,  
24 which is a rather formal title for what is in fact  
25 a very informal group. Some two years ago some  
26 primarily St. John's businessmen numbering fifteen to  
27 twenty, met under the chairmanship of Sir Leonard  
28 Outerbridge, the former Lieutenant-Governor, to consider  
29 the effect on the companies of Newfoundland of the  
30 Succession Duty, or now the Estate Tax Act. These are



521 primarily very closely held family companies, and these  
2 gentlemen decided to undertake a study, assisted by  
3 chartered accountants, lawyers, bankers, and so on, to  
4 assist them in drawing up a point of view to consider  
5 the effects on such companies of the present administration  
6 of The Estate Tax Act.

7 The Committee held a number of meetings to  
8 study the implications of the Act, and last year prepared  
9 a brief, which in essence, gentlemen, is the brief before  
10 this Commission, which was originally intended, and  
11 was presented to the Minister of National Revenue.  
12 A delegation of the Committee went to Ottawa last year,  
13 were received very kindly by the Minister, and had a  
14 meeting with the Minister and officials of his staff  
15 engaged in the administration of The Estate Tax Act,  
16 and the submission was made at that time. As a result  
17 of that meeting the Minister approved a request by the  
18 Committee that a senior member of his staff be sent  
19 to Newfoundland to study at first hand the various  
20 economic factors which the Committee felt were present,  
21 and which we thought his Department should have direct  
22 and intimate knowledge of.

23 As a result of this Mr. Goodhue of the  
24 Estate Branch came to Newfoundland last autumn, and  
25 spent about six weeks here, met with the Committee on  
26 a number of occasions, interviewed some 20 or 30 business  
27 firms, and travelled very extensively throughout the  
28 Province. We felt that he made himself very familiar  
29 with the economic conditions as they prevail in  
30 Newfoundland, and we feel, and have reason to believe,



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1 that the knowledge which Mr. Goodhue has obtained in  
2 this way, a very direct knowledge, will be of assistance  
3 to the Department in effecting a reasonable and fair  
4 evaluation when the estates involving Newfoundland  
5 companies come before his Department for consideration.

6 Now I am sure, Mr. Chairman, that yourself  
7 and your colleagues don't need me to re-emphasize the  
8 unique position which Newfoundland enjoys in Confederation.  
9 We are the newest Province of Canada. We came to  
10 Confederation, many people will say, 90 years too late.  
11 We lagged behind the development of the rest of Canada.  
12 We didn't, as a small, self-governing dominion, have the  
13 advantages of a large development policy, which has  
14 so much benefited the rest of Canada. I am sure I  
15 need say very little in that regard so far as Mr.  
16 Perry is concerned, who has had occasion in the past  
17 to make a study of the economic situation of Newfoundland,  
18 and that Mr. Grant, as a representative of the Atlantic  
19 Provinces, is in the same situation.

20 I would simply say that we feel that the  
21 economy of the Atlantic Provinces lagged behind the  
22 rest of Canada, and unfortunately the economy of  
23 Newfoundland lags behind that of the Maritime Provinces.  
24 Newfoundland has very few secondary industries, and  
25 has to rely primarily on the export of its primary  
11 26 products. The economy therefore is much more  
27 vulnerable in Newfoundland than elsewhere in Canada.  
28 Recent reports by economists, prepared at the  
29 instigation of the federal and provincial governments  
30 and the boards of trade, an example is Professor Cairncross,



561 confirmed that Newfoundland differs to a degree from the  
2 other provinces.

3 Most businesses in Newfoundland are family-  
4 owned, and many of them are in corporate form. The  
5 shares of these companies, of course, are not listed  
6 on the exchanges, and by reasons of the difficulties  
7 inherent in the local economy these shares aren't easily  
8 disposed of. We realize that this particular plight  
9 of family companies is not confined to Newfoundland,  
10 but there again, while it is possible to attract American  
11 and Canadian buyers on the mainland, it is next to  
12 impossible to do so in this Province.

13 I might just say at this point, Mr. Chairman  
14 and gentlemen, that we are not as a Committee, we do  
15 not deal with, and we didn't seek to apply our views  
16 to the primary producing industries of this Province,  
17 with the exception of companies engaged as private  
18 companies in the fishing industry. By that I mean we  
19 are not concerned with the mining companies, the logging  
20 companies, which are in many, and most cases, owned  
21 elsewhere in Canada, or owned abroad very largely. We  
22 do not deal with public utility companies. We do not  
23 deal with manufacturing companies, nor with companies  
24 that, by virtue of their particular endeavours in the  
25 economic field, are attractive to investment, either  
26 by other mainland interests, or by foreign interests.  
27 In that category I would put such things as local  
28 breweries, chains of supermarkets, and this type of  
29 thing. We rather confine ourselves to what I might call  
30 what we have in Newfoundland to a large degree, privately-



571 owned companies, engaged primarily in the business of  
2 supplying. These are companies which deal in retail,  
3 and also to a large extent in wholesale supplying of  
4 consumer products.

5           The economic history of Newfoundland shows  
6 that from time immemorial our people have depended to  
7 a very large degree on the availability of credit. The  
8 fishing industry, for example, would never have  
9 survived in Newfoundland to the extent that it has if  
10 there had not been available a credit system whereby  
11 at the beginning of the season the fisherman may be  
12 outfitted for the season, and at the end of the season,  
13 when his product was ready for selling, could then  
14 square off his accounts in that way. This credit was  
15 not available from what I might call normal credit  
16 sources, banks and loan companies. It fell to the  
17 local dealers, the merchants, to supply that credit,  
18 and this they did. Credit supplied initially by the  
19 local merchant in the town in which the fisherman for  
20 example lived, and farther back along the line, credit  
21 supplied by the wholesaler who had supplied credit to  
22 the retailer.

23           Those are the types of companies which have  
24 been in business in Newfoundland, many of them for  
25 several centuries, that this Committee is primarily  
26 concerned with. It is that type of business which we  
27 felt is most likely to be affected by the imposition  
28 of estate taxes.

29           Now, I would say Mr. Chairman and gentlemen,  
30 that there are very few changes in the legislation that



581 we would recommend to your Commission. Our submission  
2 is really one dealing with the administration of the  
3 Act as it is presently on the statute books. Our main  
4 concern is the yardsticks, or the methods of measurement,  
5 or the methods of evaluation, which are used to value  
6 and set a price on the value of these shares in private  
7 companies.

8 We feel that to impose, or rather to fail to  
9 take into recognition, the peculiar aspects of the  
10 economy of Newfoundland, when such shares in these  
11 private companies of the type I have described are  
12 being made, to fail to take these factors into consider-  
13 ation will<sup>2</sup> very definitely impose a very serious  
14 burden on the persons concerned, the estates concerned,  
15 and will have a serious and detrimental effect on the  
16 ability of these companies to continue to do business  
17 in Newfoundland.

18 I think the day is long distant, far distant,  
19 when the economy of Newfoundland will be such that  
20 it will not need that type of business in order to  
21 carry on its economy. There is still a need, even  
22 in this day and age, for the type of service that these  
23 companies have been providing in the economy of our  
24 Province, and any imposition of taxation which would  
25 limit the abilities of companies of this sort to  
26 continue to provide that service would, we feel, have  
27 very serious and harmful effects on the Province of  
28 Newfoundland.

29 Now sir, our difficulty up to now has been  
30 what we can only describe as what we feel has often been



59 a lack of awareness, or lack of appreciation, on the part  
2 of the federal Revenue Department in taking these  
3 special circumstances that prevail in Newfoundland into  
4 consideration when they are valuing businesses, or when  
5 they are valuing businesses or equity shares for either  
6 gift or death duty purposes.

7 This is the basis upon which our brief has  
8 been prepared for presentation to you. We are not  
9 concerned with the techniques of the estate tax. We  
10 are not concerned with the Act as it now exists. We  
11 are very much concerned, of course, with the administration  
12 of that Act. Mr. Chairman and gentlemen, you may not  
13 feel that the interpretation, or the administration of  
14 the Act is a matter which comes within the scope of  
15 your authority. I would hope that that would not be  
16 your view, that you feel that this is very much a  
17 part of the task which you have undertaken in this  
18 regard, and I have with me this morning Mr. Robert  
19 Leith, chartered accountant, who is in fact the  
20 Dean of that ancient and honourable profession in this  
21 Province.

22 Mr. Leith is the senior practitioner, and  
23 he has a tremendous knowledge of the economy of  
24 Newfoundland, and has seen at first hand over a great  
25 number of years the effect of the taxation in various  
26 forms on this Province. Mr. Leith, I am sure, would be  
27 only too happy to answer any questions that you,  
28 Mr. Chairman, or your colleagues, may have with regard  
29 to our submission, and perhaps I have said enough to  
30 outline at the beginning the point that we are making,



601 and if perhaps it is your wish, sir, to ask questions,  
2 I am certain that Mr. Leith, who is our expert in these  
3 matters, or myself to the best of my ability, would be  
4 only too happy to try and answer them for you sir.

5 THE CHAIRMAN: Thank you Mr. Greene. I  
6 was told that I have probably overlooked what your  
7 relationship to this Committee may be.

8 MR. GREENE: Actually, sir, my position at  
9 the moment is of counsel.

10 THE CHAIRMAN: You are practising law, are  
11 you?

12 MR. GREENE: Yes sir, that is so, yes.

13 THE CHAIRMAN: You are concerned about privately-  
14 owned companies engaged primarily in the business of  
15 supplying. There would be 15 to 20 such companies,  
16 or are there many more?

17 MR. GREENE: In the whole of Newfoundland sir?

18 THE CHAIRMAN: Yes?

19 MR. GREENE: I would say several thousand.

20 Not all of them corporate bodies, many of them would  
21 be sole proprietorships, or partnerships.

12 22 THE CHAIRMAN: You are directing your remarks  
23 to companies I think?

24 MR. GREENE: Actually our primary concern,  
25 sir, is with companies because of the share factor involved.  
26 I would say at a guess -- perhaps Mr. Leith is in a  
27 better position to give you an answer on this, but I  
28 would think that the number of companies that would fall  
29 within this category would certainly be in excess of  
30 five hundred.



62 1 MR. LEITH: It is somewhere between three  
2 and five perhaps.

3 THE CHAIRMAN: Thank you.

4 MR. GRANT: Your remarks, Mr. Greene, would  
5 cover the valuation of a business, whether that business  
6 was represented by shares or whether it was a partnership

7 MR. GREENE: That is true sir. Yes indeed,  
8 and it would therefore include sole proprietorships  
9 and partnerships, yes, although may I just say that from  
10 a practical point I would think that in this day and  
11 age there would be very few sole proprietorships,  
12 or small partnerships that would perhaps be affected  
13 by estate taxation. I think that at the most three-  
14 quarters that would be affected would probably involve  
15 share capital.

16 THE CHAIRMAN: Your brief is directed, I think,  
17 to the unduly high value placed on shares?

18 MR. GREENE: That is so.

19 THE CHAIRMAN: Has there been an increase,  
20 or a decrease, in the number of supplying companies?  
21 You inform me that there role is changing, and will  
22 in the future change. I suppose financing will arise  
23 by other means than the existing ones? Does that mean  
24 that these companies are shrinking, or merging, or  
25 what is happening to them?

26 MR. GREENE: Subject to Mr. Leith's views  
27 on this, Mr. Chairman, I would say that in some cases  
28 they are diversifying. They are going into other lines  
29 in order to round out their business dealings, and so  
30 on, but primarily I would say there have not been many



631 mergers of these companies.

2           There again the family tradition is a strong  
3 one. You will find that these firms have passed on  
4 from generation to generation. Some firms that are re-  
5 presented in this Committee have been in business in  
6 Newfoundland since the latter part of the 18th century  
7 for example, and there has been, and I don't want to  
8 sound too, put too high a value on this, but there has  
9 been this, I suggest, amongst these families, this  
10 tradition of service. They recognize that they have  
11 in the past and are continuing to play a vital role  
12 in continuing the economy of this Province.

13           I am not suggesting that they have stayed in  
14 business hundreds of years only to help the people of  
15 Newfoundland, but they have been a major factor in  
16 keeping the economy of Newfoundland as stable as it  
17 has been.

18           I wonder if I could ask Mr. Leith to elaborate  
19 on that particular aspect of the point you raised Mr.  
20 Chairman?

21           MR. LEITH: Some of them have gone out because  
22 of the economic conditions, but these have been succeeded  
23 by others. I think I must say that the supply business  
24 is not what it used to be. The volume of business now  
25 carried on in the supply business is not what it was  
26 15, 20, 25 years ago.

27           THE CHAIRMAN: Many of these businesses have,  
28 as Mr. Greene has indicated, stayed in the same families,  
29 and I suppose some have been traded from one group to  
30 another. Is that not so? There must have been some



641 transactions with the companies.

2 MR. LEITH: Yes, the tendency is to keep them  
3 within the family circles, and I don't know whether there  
4 is a parallel to it elsewhere, other than in Quebec,  
5 but it is predominantly the case here.

6 THE CHAIRMAN: Well I think now we see more  
7 moving out of families that have gone down several  
8 generations, and the younger members of the families  
9 have developed other interests.

10 MR. LEITH: This is true to some extent, yes.

11 THE CHAIRMAN: And the businesses there have  
12 to be sold or passed on to employees, or something  
13 like that?

14 MR. LEITH: Yes.

15 MR. GREENE: One of the points emphasized  
16 in the brief is that there is not the same market  
17 in Newfoundland. There is not the same amount of  
18 capital available for the acquisition of these shares  
19 if and when they become available. There are a large  
20 number of persons in Newfoundland who are on paper  
21 at any rate very wealthy and substantial people, but  
22 they don't have liquid capital available to buy into,  
23 or take advantage of buying into, other companies and  
24 so on, and there is not the same attraction here in  
25 Newfoundland in this type of company with which we  
26 are primarily concerned for outside investment.

27 For example, I would say on the mainland of  
28 Canada we are regarded, as we are, being on the  
29 periphery of Canada, as being an unknown quantity to  
30 the vast majority of Canadians. I would say that the



61 1 average businessman investing in Canada would look upon  
2 investing in this type of business in Newfoundland  
3 as very risky as compared to investing in Ontario,  
4 or even in Nova Scotia. There is not that incentive  
5 to invest in Newfoundland. There is, I think, based  
6 on our economic history, there is a greater risk involved  
7 in capital, and we do not in Newfoundland at this  
8 stage in our development have that type of capital  
9 available.

10 I believe we mention in our brief an illustration  
11 of that, which I might cite to you, Mr. Chairman, and  
12 gentlemen. Last year the Central Mortgage and Housing  
13 Corporation put blocks of its mortgages on the open  
14 market, and I believe that at one stage there were two  
15 or three blocks of Newfoundland mortgages put on the  
16 market, and my understanding is that these weren't sold  
17 that there were no bids received from Newfoundland,  
18 and none from the mainland, mainly I think because the  
19 mainland capital didn't know enough about conditions  
20 in Newfoundland to know whether it was a good investment,  
21 and so far as Newfoundland is concerned I don't think  
22 the capital was available.

23 I believe that what ultimately Central Mortgage  
24 and Housing did was to put some Newfoundland mortgages  
25 in with mortgages of other provinces, and dispose of  
26 them in that way. That, to my mind, is a good indication  
27 of what I might consider would be the view taken by  
28 mainland investors of the potential in Newfoundland,  
29 and secondly the availability, or otherwise, of capital  
30



661 in this Province.

2 THE CHAIRMAN: Do you know of any businesses  
3 which have been disposed of because of sales forced  
4 upon them by the combined effects of succession duties  
5 and income taxes?

6 I don't want names. I just want to know if  
7 there were any instances of that?

8 MR. LEITH: I don't know if I can think of  
9 any at the moment. In most cases they were wound up.  
10 As Mr. Greene was saying, a number of them date back for  
11 many, many years, and they have been held very tightly  
12 within family circles, but we have very clear cases  
13 of hardship having been brought about by valuation of  
14 equity shares.

15 That is, of course, not so very old. That is  
16 only a matter of 14, 15 years. Before that it was not  
17 so difficult as it has become now.

18 Another feature there perhaps is that we  
19 came into Confederation in 1949, and very few of our older  
20 citizens had thought of such things as estate planning.  
21 They got well up in years before Confederation came  
22 along, and it was too late for them to see the benefits  
23 of them.

24 That is a factor that perhaps you might  
25 consider.

26 MR. PERRY: Mr. Leith, there was some sort  
27 of a death tax here, wasn't there, before Confederation?

28 MR. LEITH: Yes there was. The question of  
29 the techniques of valuation weren't so involved in those  
30 years as they are now.



671 THE CHAIRMAN: You address your remarks  
2 to that precisely, the effects of valuation, I think,  
3 and the administrative practices.

4 I didn't think the administrative practices  
5 were very clearly defined, or laid down, and in fact  
6 I have seen some variation in these, and plenty of  
7 room for negotiation, and I was wondering if what you  
8 are proposing does not encourage the codification of  
9 such practices, with perhaps special consideration to  
10 Newfoundland, and I would have thought you might be  
11 better served by the continuation of the fluidity, the  
12 variety of present practices, where there is plenty  
13 of opportunity to look at local conditions with regard  
14 to a particular case, and to argue the merits of that  
15 case in the light of what goes on in its particular  
16 kind of business, or in its environment.

17 MR. GREENE: I am sure we would concur in  
18 your remarks, Mr. Chairman, in that regard. Certainly  
19 it is not our suggestion that these matters be put in  
20 statute form, or codified, or covered by regulation  
21 in any way, because I think that to do so would be  
22 completely, as you suggest, just to defeat the degree  
23 of flexibility which is present at the moment, but I  
24 think there is some need to emphasize, and to do it  
25 publicly, the need for any matters of this sort to take  
26 into cognizance -- there should be, I think, regulation  
27 administration, at least to this extent, that it should  
28 be part of the policy of the national Revenue Department  
29 in every case that special circumstances, and partic-  
30 ularly circumstances outside the particular company



involved, circumstances of a provincial or regional nature, should certainly be part and parcel of their valuation techniques. That these are factors which almost by force of law they are required to take into consideration.

I am not suggesting for a moment that this has not been the practice up till now. I think that the Department has to the extent of its knowledge at any rate done that, but we feel that there is need for an even greater understanding and awareness on the part of those who are charged with the administration of this Act to take those factors into consideration.

I would say that the Department of Inland Revenue has shown great co-operation in sending one of their officials to study the conditions here at first hand. It is an illustration of the Department's desire to make itself as fully aware as possible of these local factors, but it is a point which can't be over-emphasized, because the imposition of taxation which would affect to any degree the ability of these companies to carry on is vital to the economy.

THE CHAIRMAN: I am puzzled. You suggested the Department taking this into consideration, that it is aware of the circumstances in Newfoundland, and yet you suggest that they should take it into consideration even to a greater extent.

Well, I would be inclined to think that the Department must be performing satisfactorily on the one hand, or on the other hand it is not performing satisfactorily. Surely you must make the choice?



691 MR. GREENE: I thought I had covered myself  
2 by saying that they are doing this to the extent of their  
3 knowledge and experience in dealing with Newfoundland  
4 affairs. I would say, without any criticism of the  
5 Department, that in many instances up to now the  
6 people directly concerned have felt that they have not  
7 in fact given that degree of recognition to these  
8 needs and problems that it was felt that these did  
9 deserve. I think there is, shall we put it this way,  
10 there is some degree of awareness by the Department,  
11 and some degree of recognition in taking these special  
12 points into consideration. We don't feel that there  
13 is a sufficient awareness, nor do we feel that there  
14 is a sufficient taking into account of these factors.

15 MR. GRANT: May I just elaborate a little  
16 on that Mr. Chairman, from some personal experience  
17 in connection with estate matters?

18 Referring to the actual machinery which is  
19 now in operation, your estate returns would be filed  
20 with your Divisional Office here?

21 MR. GREENE: That is right.

22 MR. GRANT: And would be subject in the first  
23 instance to an appraisal by the Department assessors,  
24 who are residents of St. John's?

25 MR. GREENE: That is correct.

26 MR. GRANT: And in some cases they would be  
27 natives of this City, I suppose. They, we would assume,  
28 would be cognizant of the very thing which you  
29 are emphasizing, of a differential in valuations.

30 I know from my own experience that very often



701 these valuations are reviewed, and in fact they have  
2 to be reviewed, in Ottawa, and there is where valuations  
3 are sometimes changed. Your desire is that the  
4 ultimate valuation should be done by people who are  
5 at least cognizant of this situation. Whether they  
6 apply it or not is a matter for appeal.

7 MR. GREENE: Yes sir.

8 MR. GRANT: But you are anxious to know  
9 that they are cognizant of this situation. I was  
10 wondering if the visit which you had from Mr. Goodhue,  
11 has it been long enough for it to have had any  
12 noticeable effect, perhaps not to your own personal  
13 knowledge, but have you or Mr. Leith heard that it has  
14 had the desired effect?

15 MR. GREENE: Mr. Chairman, Mr. Grant, I would  
16 ask Mr. Leith to answer the latter part of your question  
17 at the end. May I just comment briefly on your first  
18 remarks, and your assumption is correct as to the  
19 procedure which is followed. We find here though that  
20 the local officers charged with the administration of  
21 the estate tax in this Province don't appear to have  
22 a great deal of discretion or authority. We find that  
23 practically everything has to be referred to Ottawa,  
24 and this we feel takes it out of the persons with local  
25 knowledge, and puts it in the hands of those who don't  
26 in every case seem to have an awareness of local  
27 conditions in the Province.

28 MR. LEITH: I am not able to say definitely  
29 what the result has been as shown by estates that have  
30 been administered since Mr. Goodhue was here. There



71 1 have been some suggestions, but I can't verify them,  
2 that they seem to have taken a little more reasonable  
3 view of conditions here than they had before, but I  
4 cannot substantiate that.

5 THE CHAIRMAN: Do you know if there have been  
6 any appeals against valuations? Have any cases been  
7 taken to court?

8 MR. LEITH: There have been no formal  
9 appeals, not to my knowledge. I have not heard of any  
10 that have gone to the Appeal Board for instance.

11 THE CHAIRMAN: Well, why not? It seems to  
12 me that if people are dissatisfied with valuations,  
13 that that is the right thing to do. I am looking at  
14 what the appeal procedure is. I am not very familiar  
15 with it, but I suspect it is the Exchequer Court.

16 MR. LEITH: While the cost of the Appeal Board  
17 is very slight, it is a matter to be considered, and  
18 in nine cases out of ten they say we will settle for  
19 this higher sum, because we might not gain anything  
20 by litigation.

21 MR. GRANT: Sometimes the difference in the  
22 assessments between what you think <sup>it</sup> should be and what  
23 it actually is in the smaller estates, that is estates  
24 of say a hundred thousand dollars, or something of that  
25 sort, that the difference amounts to three, four or  
26 five thousand dollars, which unfortunately, with the  
27 cost of litigation as it is today, can be used up,  
28 provided that the government say you are successful  
29 in the Exchequer Court, there is a further appeal to  
30 the Supreme Court, I suppose, and the taxpayer could be



721 caught right in that.

2 THE CHAIRMAN: Well, I would have thought that if  
3 these people have gone to the expense and trouble  
4 or preparing a submission of this kind, and have gone  
5 to a lot of trouble in going to Ottawa and so on, that  
6 the amounts must have been significant, and if the  
7 amounts are significant there should have been an appeal,  
8 and it would be brought out in the light, and properly  
14 9 adjudicated, so that all might see and hear.

10 MR. GREENE: One reason may be that we are  
11 young in Confederation. There have not been a great  
12 many deaths, or estates involving too many of these  
13 companies. Now, as it has happened within the last  
14 two or three months, there have been two or three to  
15 my knowledge debts involving some of the larger companies  
16 that are within the ambit of this brief, and it may  
17 well be that we will have that sort of test case that  
18 you suggest, sir, but there again of course no one wants  
19 to -- I think the French have a saying that a bad  
20 settlement is better than a good lawsuit any day.  
21 However, I think that it might well be that litigation  
22 on this matter is something that is taken as a final  
23 resort, and it may be that in the past the results  
24 have not been such as to justify the resort to  
25 litigation, but this should be a practice easily  
26 established that would make it unnecessary to go to  
27 litigation, or to go to appeal.

28 I don't know if you would wish Mr. Leith  
29 to say a few words on the most technical aspects of it.  
30 That is the actual technique of valuation, and the various



73 1 methods used, and so on.

2 THE CHAIRMAN: Well, if Mr. Leith would care  
3 to we would be very glad to hear from him. I think we  
4 are reasonably familiar with the methods of valuation.

5 MR. GREENE: I appreciate that, Mr. Chairman.  
6 I meant these techniques as they relate to these  
7 Newfoundland companies, and as they affect the final  
8 determination.

9 MR. LEITH: It is the capitalization factor  
10 which worries us a good deal. They have been too  
11 low from our standpoint. In other words, we suggest  
12 to them that if you think that the rate should be around  
13 10 per cent of earnings on the mainland, that factor  
14 should not be used in Newfoundland. You might add  
15 50 per cent to it, and call it 15. That is merely  
16 an illustration of where we stand. We have in fact  
17 said to Mr. Goodhue that in our view any rate that you  
18 might choose, if it is ten it should be fifteen. If it  
19 is 20 it should be 30, and so on. That is roughly  
20 the situation.

21 Thinking back over a number of years, companies  
22 almost invariably had their share, and their nominations  
23 of a hundred dollars each, and it was common knowledge  
24 in Newfoundland that any company's shares would not be  
25 worth more than par unless they were continually paying  
26 a 10 per cent dividend.

27 THE CHAIRMAN: That is interesting.

28 MR. LEITH: That is not far removed from the  
29 situation today.

30 MR. GRANT: Earnings weren't so much the



741 factor as the dividend.

2 MR. LEITH: Quite so.

3 THE CHAIRMAN: I think you made your point  
4 very well when you tell us that there is not a market  
5 for these shares, and that there just isn't sufficient  
6 capital to pick them up as they become available,  
7 and therefore they are going to be sold for a lower  
8 price. I am not sure that this submission to us is  
9 going to be particularly useful. I don't know what  
10 we can do in this regard, if anything, but certainly  
11 we will continue to study the points brought out.

12 I don't think we have any further questions.

13 MR. LEITH: There is one point, Mr. Chairman,  
14 if I may?

15 THE CHAIRMAN: Yes please Mr. Leith.

16 MR. LEITH: We endorse what was said in  
17 the former brief, the Board of Trade brief, about  
18 Section 28, a minority shareholder being deemed to be  
19 in control. That bears very heavily in Newfoundland  
20 because of the presence of so many family corporations,  
21 and we have seen distinct hardships brought about.

22 We would strongly recommend that Section 28  
23 be removed.

24 MR. GRANT: Or that the minority shareholder  
25 should be, rather than have his shares valued at the  
26 same value as the person who controls the company, that  
27 there might be a differential based on percentage-wise,  
28 they would be valued at some lesser amount, based on  
29 -- there would have to be some yardstick, of course,

30 MR. LEITH: That may be so. My own thought



751 was that they would fall into the normal category.  
2 If they were minority interests small enough, it would  
3 be on a dividend basis. If they were approaching the  
4 halfway mark, they might be based on the earnings basis,  
5 with a somewhat higher factor than that on the mainland.

6 I have seen cases where that operated, where  
7 Ottawa have set a rate. I am thinking now in relation  
8 to a minority shareholder resident in the U.K. The  
9 U.K. wrote to Ottawa to find out what would be about  
10 a fair return for this particular share which was  
11 operating in Newfoundland, and they said six per cent.  
12 A relative of this resident of the U.K. came to me and  
13 said what do you think about that? And I said no,  
14 I think that is too light. I think it would be nearer  
15 10, and the economic situation was explained to Somerset  
16 House, and the end result was that they agreed to ten  
17 per cent, rather than six.

18 MR. GRANT: Well, I understand that there is a  
19 differential applied now. I am advised that if there  
20 is an estate say in the Province of Nova Scotia the  
21 same yardstick that would be used in Ontario is  
22 not necessarily being applied.

23 THE CHAIRMAN: Thank you very much indeed.  
24 We seem to get your point, gentlemen. We are glad to  
25 have this information. Not only have you told us about  
26 the particular problem, but you have told us a little  
27 more about this part of the world and its economy. It  
28 is useful to us, and very helpful indeed. We are glad  
29 to see you.

30 MR. GREENE: Thank you Mr. Chairman on behalf



1 of the Committee. We are very grateful to you and  
2 your colleagues for your kind audience this morning,  
3 and we trust that the balance of your hearings will  
4 be enjoyable.

5 THE SECRETARY: I have two further items of  
6 business, Mr. Chairman, two briefs to be entered into  
7 the record.

8 One is from Lieutenant Colonel E.A. Olmsted.  
9 This brief was sent to our office in Ottawa and received  
10 on June the 18th. This is the first opportunity we  
11 have had to enter it into the record, which I do so now  
12 as Exhibit No. 105.

13  
14 ---EXHIBIT NO. 105: Brief submitted by Lieutenant  
15 Colonel E.A. Olmsted.

16 THE SECRETARY: Next is a brief received on  
17 August 1st from Mr. Donald Huggett, of Montreal. As  
18 I understand it, Mr. Chairman, he may be appearing later,  
19 but nevertheless I wish to enter this into the record  
20 as Exhibit No. 106 at this point.

21  
22 ---EXHIBIT NO. 106: Brief submitted by Mr. Donald  
23 Huggett.

24  
25 THE SECRETARY: That is all Mr. Chairman.

26 THE CHAIRMAN: We stand over until tomorrow  
27 morning at 9:30 in Halifax.

28  
29 ---ADJOURNED.

30

# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT

Halifax Nova Scotia

VOLUME No.:

DATE:

33 August 8, 1963

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4 ROYAL COMMISSION ON TAXATION

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6 Hearing held in Province House,  
7 Halifax, Nova Scotia, on the 8th  
8 day of August, 1963.

9 COMMISSION:

10  
11 MR. KENNETH LeM. CARTER -- Chairman

12 MR. J. HARVEY PERRY

13 MR. DONALD G. GRANT  
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15 SECRETARY:

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17 MR. G. L. BENNETT  
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I

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF HALIFAX, NOVA SCOTIA.

August 8, 1963

TOPICAL INDEX

VOLUME No. 33'

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a ) <u>INTRODUCTION:</u>		
	Opening remarks of the Chairman	2I59
( b ) <u>Submission: Of</u>		
	<u>The Retired Canadian Railway Employees Association.</u>	2I58
35	Personal Income Tax- Exemptions and Allowances.	2I58 - 2I70
39	Personal Income Tax- Lump Sum and Fluctuating Incomes.	2I58 - 2I70
( c ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	2I59 - 2I6I
	<u>The Tax problems of The Retired Railway Employees related to Pensions or Retired Allowances.</u>	
	A reference to Bill C-78 presented to the House of Commons November 15, 1962 Re: Railway Employees.	2I60
	Nature of The Association, and whom it represents in Canada, the extent of its membership.	2I6I, 2I62
	A resume of the present problem and complaints confronting the retired pensioner in respect to taxation of pensions and retirement allowances, the basic arguments and viewpoints setforth for additional relief from taxation, the reaction and comments in respect to the problems presented.	2I62 - 2I70
	Closing remarks of the Chairman	2I70, 2I7I



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Halifax, Nova Scotia

II

August 8, 1963

Volume No. 33

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( d )	<u>Halifax Board of Trade</u>	
	A few remarks of the Chairman with regard to the presence of members of the aforementioned Board, the exchange of greetings.	2I7I, 2I72
( e )	<u>Submission: Of</u>	
	City of Sydney and Mr. Lawrence Sandford, City Clerk-Treasurer, Sydney, N.S.	2I72
	Opening remarks of the Chairman	2I73
27	Incidence of Taxation- and Income Distribution.	2I73 - 2I78 2I8I - 2I95
35	Personal Income Tax - Deductions	2I78 - 2I80 2I96 - 2209
( f )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2I73- 2I74
	<u>The impact of Federal Taxation on Municipal Governments in Canada</u>	
	A point submitted, that, local councils of Municipal Governments today are being called upon to provide services which cannot be provided adequately from the revenue sources at their disposal, the basic reasons expressed . A general outline of the suggested and proposed solutions to the problems confronting Municipal Governments, and in particular the cost of educational requirements.	2I74 - 2I78 2I8I - 2I95
	<u>Home Owner - Property Taxes and Mortgage Interest , deduction of for tax purposes.</u>	
	A reference to the suggestion, that, Home-Owners be permitted to claim all or a substantial proportion of his property taxes and his mortgage interest as a deduction for Federal Income tax purposes. Some statistics quoted, and the resultant effect in support of the proposal. The reaction to the point raised.	2I78 - 2I80 2I96 - 2209
	Closing remarks of the Chairman	2209



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Halifax, Nova Scotia.

August 8, 1963

Volume No. 33

1  
2  
3  
4  
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30

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( g ) <u>Submission: Of</u>		
	<u>The Inkeepers' Guild of Nova Scotia</u>	22IO
	Opening remarks of the Chairman	22IO
SI	Tax Exempt Entities	22II - 22I3
( h ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	22IO, 22II
	A reference to the recommendation, that, charitable or non-profit organizations who engage in Commercial activities with persons other than members or bona fide guests of members, they be taxed, except where the service is in furtherance of the objectives of the organization. The arguments presented, and some viewpoints expressed in support thereof. The reaction to the problems involved.	22II - 22I3
	Closing remarks of the Chairman	22I3
( i ) A concise statement made before the Commission on behalf of The Nova Scotia Federation of Labour. By:		
	Mr. Leo McKay, appearing in person, representing the above.	22I3, 22I4
	<u>Subject:</u>	
	The submission of their views on taxation to their parent body The Canadian Labour Congress to be incorporated in the presentation of a brief to be sub- mitted to the Commission by the latter organization in due course.	
	Closing remarks of the Chairman.	22I4 - 22I6



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Halifax, Nova Scotia

17

August 8, 1963

Volume No. 33

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
IO7	Brief of The Retired Canadian Railway Employees Association .	2158
IO8	Supplementary Brief of The Retired Railway Employees Association .	2159
IO9	Brief of The City of Sydney, Nova Scotia.	2172
II0	Brief of Mr. Lawrence Sandford, City Clerk-Treasurer, Sydney, Nova Scotia.	2172
III	Brief of The Inkeepers' Guild of Nova Scotia.	2210
II2	Brief of Mr. Edward G. Burns, Bathurst. N.B.	2215
II3	Brief of Group-Captain W.L. Orr, Rockingham, Nova Scotia.	2215
II4	Brief of Mr. John J. Grey, Saint John, N.B.	2215



ANGUS. STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

2158

Halifax, Nova Scotia,  
Thursday,  
August 8th, 1963.

PM/sp

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---Upon commencing at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, it is now 9.30.  
We might come to order, I think, and proceed with our  
business.

Have you anything for us before the hearing.

THE SECRETARY: I have Mr. Chairman. We have  
a number of briefs this morning. Some people are present.  
Other briefs will be read into the record, and it gives  
me great pleasure, Mr. Chairman, in this rather historic  
chamber and most comfortable surroundings which have been  
provided to/by the Government of Nova Scotia, to enter  
first into the record a brief presented by the Retired  
Canadian Railway Employees Association.

This is a brief submitted by the Association  
in February of this year, and it will be spoken to by Mr.  
Walter Lyon, Secretary-Treasurer, who has with him Mr.  
Caldwell, the President, and Mr. Carpenter, the Grand  
Auditor.

I now enter the brief of the Retired Canadian  
Railway Employees Association into the records as Exhibit  
No. 107.

---EXHIBIT NO. 107: Brief submitted by the Retired  
Canadian Railway Employees Assoc-  
iation.

SUBMISSION OF THE RETIRED  
CANADIAN RAILWAY EMPLOYEES  
ASSOCIATION

Appearances: J. Walter Lyon, P.W. Caldwell,  
U.W. Carpenter.



1 THE CHAIRMAN: Before we proceed I would like  
2 to say how grateful we are to be in Halifax, and grateful  
3 to you Mr. Premier for this beautiful hall and comfortable  
4 surroundings. We have not been so comfortable before, I  
5 might say, and thank you very much indeed.

6 Mr. Lyon, we have read your submission. If you  
7 would care to speak to it we would be very glad to hear  
8 from you, and in fact we would be delighted for you to do  
9 so, and summarize it, but not to read it. That is not  
10 necessary. We have a few questions to put to you and you  
11 don't need to stand if you don't wish to do so.

12 Would you care to speak to us Mr. Lyon?

13 MR. LYON: Yes Mr. Chairman. You don't wish  
14 me to read the brief?

15 THE CHAIRMAN: No, you don't need to do that.

16 MR. LYON: Well, I have a supplementary brief  
17 here that I would like to present to the Commission.  
18 Perhaps I had better read that one?

19 THE CHAIRMAN: Is that the one dated January  
20 the 28th?

21 MR. LYON: No, this is a later one.

22 THE SECRETARY: This will be Exhibit No. 108.

23  
24 ---EXHIBIT NO. 108: Supplementary Brief submitted by the  
25 Retired Canadian Railway Employees  
26 Association.

27 MR. LYON: "In further support of the action  
28 taken by the Retired Railway Employees Assoc-  
29 iation Inc., to have pension allowances in  
30 Canada exempt from Taxation.



1 In our brief filed with the Secretary  
2 of your Honorable Board under date of January  
3 28, 1963, we referred to bill C-78, which was  
4 discussed in the House of Commons November 15,  
5 1962, in which case the bill did not provide  
6 any relief from taxation for those who are  
7 retired from active service and depending on  
8 their monthly pension allowance for a living.

9 We are unable to state as to whether or  
10 not the above cited bill became law before the  
11 Government changed over. However, as was stated  
12 the fact remains that it contained no relief  
13 for those retired from active Railway Service.

14 It is our position that pension allowances  
15 should never be classed as income, as the  
16 amounts received are not sufficiently large  
17 enough to be classed as such and furthermore a  
18 pension after retirement is only a means whereby  
19 one may secure the necessities of life, this  
20 holds true in regard to pensions received under  
21 the Railroad Retirement act, in effect in the  
22 United States of America.

23 The law provides under section twelve of  
24 the Railroad Retirement Act, "Notwithstanding  
25 any other law of the United States, territory,  
26 or District of Columbia, no annuity or pension  
27 payment shall be assignable or be subject to  
28 any tax or to garnishment, attachment, or other  
29 legal process under any circumstances whatso-  
30 ever, nor shall the payment thereof be antic-



1 ipated."

2 It may be said that we cannot set up a  
3 comparison with the laws in the United States,  
4 nevertheless, we feel that it is worth a  
5 study as it is considered to be a fair and just  
6 law for those who have been retired from active  
7 service and obliged to live on a retiring  
8 allowance.

9 Further, we feel that there are various  
10 ways in which the Government of Canada could  
11 assist those who are retired and faced with  
12 the high costs of living, for instance, a  
13 greater amount of exemption could be allowed  
14 before taxes, which would be a means of easing  
15 the burden imposed by the high cost of living  
16 with which we are faced.

17 In conclusion, we trust that your  
18 Honorable Board will give every consideration  
19 to our most sincere request. Thanking you."

20 THE CHAIRMAN: Thank you very much Mr. Lyon.

21 Tell us a little bit about your organization will you?

22 You represent the Retired Railway Employees Association,  
23 which must have a very large number of members across  
24 Canada.

25 MR. LYON: Yes. I would say we would have  
26 almost 30,000 members across Canada. Retired I mean,  
27 retired members.

28 MR. CALDWELL: The Association operates in  
29 all ten Provinces.

30 THE CHAIRMAN: You have branches in each



1 Province, with a Secretariat, and an Organization.

2 MR. CALDWELL: An Organization.

3 THE CHAIRMAN: In each Province?

4 MR. CALDWELL: The headquarters is at Moncton,  
5 New Brunswick, which we call the Grand Headquarters.

6 THE CHAIRMAN: Your representation asks for  
7 various considerations for pensioned people. Paragraph  
8 four I think is the one we are really concerned with,  
9 which relates to tax exemption.

10 Now, I have never fully understood why a  
11 retired person with the same income as a working person  
12 should not pay about the same taxes. Does a retired  
13 person have more expenses? My own experience of that,  
14 which I can only judge by my own parents, was that they  
15 didn't have more expenses when they retired. Why should  
16 a retired person seek greater income tax exemption than  
17 a person employed? I don't think the point is made here.  
18 With the same income I am speaking of.

19 MR. CARPENTER: Mr. Chairman, and Honorable  
20 Members of the Board: I don't think there are any retired  
21 employees who receive the same amount of remuneration as  
22 those who are working.

23 THE CHAIRMAN: But this is a tax exemption you  
24 are speaking of. You are not asking for a subsidy?

25 MR. CARPENTER: Surely we are asking to be  
26 exempt from taxation on our pension allowance. We are  
27 not asking to be exempt from all taxation. On our  
28 pension allowance, and we are not only faced with that.  
29 We are faced with what is called the hidden tax and we  
30 feel that pension allowances should not be classed as



1 income, and as we refer there to the laws in the United  
2 States, they feel the same way, and they are exempt from  
3 taxes on their pension, Railroad Retirement Allowance,  
4 and we feel the same way about it, and we were hopeful  
5 that we would get some consideration through your Honor-  
6 able Board.

7 THE CHAIRMAN: Thank you very much indeed.

8 You still leave me with the same question in my mind, and  
9 I have regard to a person who say is retired, and has an  
10 income of \$3,000.00, including his pension in the \$3,000.00  
11 and a person with the same dependents who is not retired,  
12 and has a salary of \$3,000.00, and I do not understand  
13 why the man who is retired should expect to pay less taxes  
14 than the man who is not. It seems to me, generally  
15 speaking, that pensioned people have less in the way of  
16 expenses than do people who aren't pensioned.

17 Now, I may be corrected about that. That is  
18 why I ask the question. Can you make your case?

19 MR. CARPENTER: Well, I haven't found it so  
20 sir, and I think that our claim is a just one, and we are  
21 subject to just as much expense as the fellow who is work-  
22 ing.

23 THE CHAIRMAN: Your claim seems to be based on  
24 the fact, I think, that you are subject to more expense,  
25 not just as much. If you have just as much, surely you  
26 should have the same tax rate?

27 MR. CARPENTER: Well, we don't look at it that  
28 if way, and it is considered fair for these boys retired on  
29 the other side of the line, surely it is fair for the  
30 employees retired in this country.



1 THE CHAIRMAN: That is your case? Thank you  
2 very much.

3 MR. PERRY: Do the witnesses understand the  
4 basic theory behind the treatment of pensions in Canada?  
5 Generally it is that because the amounts contributed into  
6 the plan during the working years aren't taxed, in effect  
7 they are allowed as a deduction to the employees.

8 MR. CARPENTER: Yes, we understand that, but---

9 MR. PERRY: But, nevertheless they are taxed  
10 after receipt, and I just want to go on and say that the  
11 American situation is just the opposite. They don't get  
12 this concession during the working years, therefore the  
13 pension is not taxed. It is almost that these are alter-  
14 nate systems. You can have one or the other, but I don't  
15 think you can have both.

16 MR. CARPENTER: The exemption from the amount  
17 contributed to the pension plan has not been in effect too  
18 long.

19 MR. PERRY: Since the middle '40s.

20 MR. CARPENTER: Yes, and these pensions, some  
21 of them have been in effect since 1907, and the allowance  
22 on the Canadian National Pension became effective on  
23 January the first 1955. So there was, somewhere between  
24 1945 and---

25 MR. PERRY: Yes, there was a changeover in  
26 what they called the 501 plans, and I think the Railway  
27 were part of this plan, but wouldn't it be true before  
28 this that they were not contributory plans? That the  
29 employee was not putting in anything, and the employer was  
30 contributing it all.



1 MR. CARPENTER: No, they were always contribu-  
2 tory.

3 MR. PERRY: But a good many of the pension  
4 plans were non-contributory.

5 MR. CARPENTER: In most of them the employees  
6 contributed one half per cent of their earnings and the  
7 Canadian National Pension, it was optional up to two or  
8 three years ago, and they made it compulsory.

9 MR. PERRY: Well, you do realize that there  
10 are principles of taxation involved here. I read your  
11 last remarks as indicating that you don't think they work  
12 out quite fairly in your case?

13 MR. CARPENTER: That is right.

14 MR. PERRY: Because of the long period that  
15 your contributions were allowed as a deduction?

16 MR. CARPENTER: That is right.

17 MR. PERRY: But I don't think it can be asserted  
18 that these are unfair principles in themselves. I think  
19 most taxpayers would find it to their greater advantage  
20 to deduct their contribution during their working years,  
21 and have the pension taxable.

22 MR. CARPENTER: Well, you don't have the amount  
23 to live on that you had when you were working, and your  
24 exemptions are not any greater, and the man who is earning  
25 six or seven thousand dollars, six or seven hundred dollars  
26 a month, getting the same exemptions as you.

27 THE CHAIRMAN: The law provides five hundred  
28 dollars I think at the age of 65.

29 MR. CARPENTER: Well, what can you do with  
30 five hundred dollars today?



1 THE CHAIRMAN: Well, it is some degree of  
2 relief.

3 MR. CARPENTER: It is a measure, but not  
4 sufficient.

5 MR. GRANT: Would it be a fair measure of your  
6 case to say that you are arguing on behalf of a pensioner?

7 MR. CARPENTER: That is right.

8 MR. GRANT: Whose income has dropped as a re-  
9 sult of taking his pension?

10 MR. CARPENTER: Yes.

11 MR. GRANT: And that his standard of living,  
12 you feel, has to suffer on account of the fact that he  
13 hasn't as much money coming in, and therefore that some  
14 relief could be given to that person if he were given  
15 some tax concession?

16 MR. CARPENTER: That is right. That is right,  
17 because you haven't got the means to secure the necess-  
18 ities of life that you are entitled to on a pension  
19 allowance.

20 MR. GRANT: You feel that if it is a pension  
21 it is his sole source of income after retirement, that he  
22 can't maintain the same standard of living to which he  
23 has become accustomed?

24 MR. CARPENTER: No, he can't.

25 MR. LYON: He certainly can't.

26 MR. PERRY: I don't want to be callous about  
27 this, but how about a person at the age of 40, who finds  
28 that his income is cut in half? This may happen to him  
29 at a time when his family responsibilities are\*extremely  
30 heavy. He might have almost as good an argument for



1 relief

2 MR. LYON: Well, when a man becomes 65 it is  
3 impossible to get any work. If you try to get a job  
4 anywhere, why you just may as well stay home as far as  
5 looking around for work. They just don't want you. A  
6 man at 40, why he can go out and get a job anywhere. They  
7 will take him in a minute, but when he gets to be 65 you  
8 don't have that opportunity. You just may as well forget  
9 it. They just don't want you.

10 MR. PERRY: I suppose the fact that the old age  
11 pension is taxable makes quite a difference in most cases?

12 MR. CALDWELL: That is right.

13 MR. PERRY: This is now twelve, thirteen  
14 hundred dollars a year for a man and his wife together?

15 MR. CARPENTER: Yes, you are taxed on that the  
16 same as your other taxes.

17 MR. PERRY: I think this specific proposal,  
18 Mr. Chairman, is that the exemption be made seven thousand  
19 dollars I believe. Is that still the suggestion that you  
20 advance?

21 MR. CARPENTER: Well, that was---

22 MR. PERRY: The one that was in the brief?

23 MR. LYON: The first brief

24 MR. PERRY: The first brief, yes.

25 MR. LYON: Well, that is a little high.

26 MR. PERRY: It comes at the end of the first  
27 paragraph on page 2 of your first brief.

28 THE CHAIRMAN: Giving at least an exemption  
29 up to seven thousand dollars

30 MR. CARPENTER: I wasn't in on that brief



1 MR. PERRY: I think this is the only specific  
2 proposal that is put forward, apart from a general request  
3 for a higher exemption, or easier treatment of pensions.

4 It struck me personally that this is a fairly  
5 high exemption.

6 MR. CARPENTER: Seven thousand dollars.

7 MR. PERRY: Seven thousand dollars, yes.

8 MR. CARPENTER: Yes, that is far more than the  
9 pension we get.

10 THE CHAIRMAN: I imagine there would be very  
11 few pensioners who would be taxable at all under that.

12 MR. LYON: That is right.

13 THE CHAIRMAN: Well, it seems to me that that  
14 is what we had, and that your request was tantamount to  
15 saying that pensioners should not be taxed. That seems  
16 to me not to be correct, that pensioners ought to bear  
17 their share of the cost of Government, as well as other  
18 people, but comparatively.

19 MR. CARPENTER: Well, we are increasing an  
20 extra burden on them by taxing their pension allowance,  
21 and as I said before, the pensions aren't great enough  
22 to secure to live on the standard of life that you have  
23 always been used to living at, and they are still contin-  
24 uing to go, so we don't know where we are.

25 THE CHAIRMAN: We have no more questions Mr.  
26 Lyon. If you have anything further you would like to  
27 put to us, by all means do so.

28 MR. CALDWELL: The only thing, Mr. Chairman,  
29 I might say that with the Railway rules today, you see,  
30 our former Constitution said that the Railwaymen could



1 work until 70 years of age. Well, when the Intercolonial  
2 Railway absorbed into the other Railways, they set the age  
3 limit at 65. We were forced out at 65.

4 Well now, you take yourself, a man in good  
5 health, with Railway experience. He is the best at 65  
6 today as he was when he was 40, and he has five good years  
7 that he could work if he was in good health. Now, I have  
8 been in retirement for five years, and the man who took  
9 my place is getting just twice the salary I was getting  
10 when I retired. Then, from the age of 65 to 70 there was  
11 just the retirement allowance to be dependent upon. Old  
12 Age Security came in at age 70, you and your wife both  
13 over 70. Then that loaded on you an increased burden of  
14 tax. Whereas today I am exempt for a thousand dollars, my  
15 wife is exempt for a thousand dollars, and being over 65  
16 that is 500. There is \$2,500.00. Well, with the pension  
17 allowance and the old age allowance for the both of us,  
18 brings down our deductions to \$500.00, and that is all we  
19 get. Instead of \$2,500.00 it is about \$500.00.

20 So that is why I feel today that the pensioner  
21 should be given a little consideration, because if we were  
22 allowed to work till 70 I don't think we would be here  
23 presenting this brief today, because we would be in the  
24 higher brackets that come in for salary allowances.

25 You must remember that in the last eight years  
26 salary has tripled, and this is just a little note that  
27 I added to the brief:

28 "Due to the high cost of living, the present  
29 pension is only worth about 50% of what it was  
30 ten or fifteen years ago.



1                   The dollar has been devalued, the cost of  
2                   living increasing daily. If pensions could be  
3                   based on the cost of living it would be a  
4                   benefit. The direct tax could be eliminated  
5                   from our pay cheques. A greater amount of  
6                   exemption could be allowed before taxes. An  
7                   old age pension on a sliding scale at age 65.  
8                   An increase in the present pension. Is it  
9                   lawful to deduct direct tax from pension cheques?  
10                  Many pensioners are obliged to get work after  
11                  retirement as the pension is not large enough  
12                  to cover their living expenses. Many pension-  
13                  ers are unable to work, due to physical dis-  
14                  ability."

15                 Now, between the ages of 65 and 70 today a lot  
16                 of our pensioners are going out to work, and a lot of  
17                 firms will take them on due to their experience. Therefore  
18                 those men are simply taking a job from one of the unem-  
19                 ployed.

20                 THE CHAIRMAN: Thank you very much. Let me  
21                 say that I and my fellow Commissioners are undoubtedly  
22                 sympathetic to the situation of pensioners, particularly  
23                 those who retired some years ago and have got caught with  
24                 the diminishing value of the dollar.

25                 As a matter of fact I employ three pensioners  
26                 myself, who are messengers in my office. One celebrated  
27                 his 15th anniversary with me last week, starting at, I  
28                 would say, 70, which would make him 85, and he is a very  
29                 useful man.

30                 We must by virtue of this job keep our minds



1 on taxation, and we are greatly concerned as to any sugg-  
2 estions of shifting the weight of taxation from one group  
3 of the community to another group. It may be that pension  
4 ers have a good case for exemptions, and people that  
5 aren't pensioners should bear some of those taxes now on  
6 the shoulders of pensioners, but I want to make it clear  
7 that relief from taxation doesn't come out of the air. It  
8 comes from shifting the burden from one group of people  
9 to another.

10 We will certainly consider what you have put  
11 before us, and should we come to the conclusion that the  
12 pensioners are bearing more than their fair share of the  
13 burden of the country we will put that forward in our  
14 Report, but I have not any idea what our conclusion will  
15 be.

16 We are very grateful to you for putting your  
17 points to us so very clearly, and so well today, and we  
18 will continue to consider what you have said to us.

19 Thank you very much indeed.

20 Mr. Grant tells me that Mr. Zive and Mr. Ross  
21 from the Halifax Board of Trade are in the room. I am  
22 very pleased to greet you. May I introduce myself? I  
23 am Kenneth Carter. Which are you?

24 MR. ZIVE: I am Manuel Zive, and this is Mr.  
25 Ross.

26 THE CHAIRMAN: How do you do, Mr. Zive and Mr.  
27 Ross?

28 MR. ZIVE: And may I say, Mr. Chairman, that  
29 on behalf of the Halifax Board of Trade we welcome you  
30 to this historic city. Mr. Bennett has already made



1 reference to this historic room. May I say that just down  
2 the hall to your right we have a very historic room assoc-  
3 iated with the freedom of the press. I don't think we  
4 can say we have freedom of taxation in this room, but  
5 anything you can do to alleviate it will be appreciated,  
6 and if you need any help, Mr. Ross is at the Board's  
7 office.

8 THE CHAIRMAN: Thank you very much Mr. Zive.  
9 We need all the help we can get, I can tell you, and we  
10 will keep on doing our best to alleviate taxation.

11 MR. ZIVE: I am sure you will sir.

12 THE SECRETARY: Mr. Chairman, at this time we  
13 have a brief before the Commission from the City of Sydney  
14 Nova Scotia. Unfortunately, His Worship, Mayor Urquhart,  
15 who was to be present to present the brief, is unable to  
16 be here this morning, but Mr. Lawrence Sandford, the  
17 Clerk-Treasurer of the City, is here. He will speak to  
18 the brief and at the same time he will speak to a brief  
19 which he has presented in a private capacity to the  
20 Commission.

21 I would like to enter into the records as  
22 Exhibit No. 109 the brief of the City of Sydney, Nova  
23 Scotia, and also I would like to enter into the record,  
24 as Exhibit No. 110, the brief of Mr. Lawrence Sandford,  
25 who is the Clerk-Treasurer of the City of Sydney, Nova  
26 Scotia.

27  
28 ---EXHIBIT NO.109: Brief submitted by the City of Sydney,  
29 Nova Scotia.

30 ---EXHIBIT No.110: Brief submitted by Mr. Lawrence  
Sandford, City Clerk-Treasurer, Sydney,  
Nova Scotia.



SUBMISSIONS OF THE CITY OF SYDNEY,  
NOVA SCOTIA and MR. LAWRENCE SANDFORD,  
CITY CLERK-TREASURER, SYDNEY, NOVA  
SCOTIA

---

Appearances: Mr. Lawrence Sandford.

THE CHAIRMAN: Good morning Mr. Sandford.

MR. SANDFORD: Good morning.

THE CHAIRMAN: We have a lot of paper before us as the result of your technique of presenting two briefs at one time. Can we keep our eyes on one, and then on the other?

MR. SANDFORD: By all means sir. If we keep our eyes on the brief of the City of Sydney-- my other brief is only background information pertaining to the City of Sydney brief.

THE CHAIRMAN: Thank you. Would you care to speak to the two of them, if you wish? Whatever you like. Summarizing them, or amplifying them. We have read this submission, and we will have a few questions for you, but we would like to hear anything you might like to say.

MR. SANDFORD: Yes Mr. Chairman and Members of the Commission: It is a pleasure and an honor to present to you this morning some observations on the submission of the City Council of the City of Sydney.

The submission as you know deals with the impact of Federal Taxation on Municipal Government in Canada.

I am sure that we will all agree that the healthy growth and development of our cities, towns and rural municipalities is of considerable importance to us.



1 Our local communities ARE Canada -- and since we are all  
2 to some extent creatures of our environment, it is natural  
3 that we should be interested in making our communities as  
4 pleasant, clean, secure, convenient and civilized as  
5 possible.

6 To this end we have all freely accepted the  
7 principle that city, town and rural councils should have  
8 responsibility for providing many needed local services  
9 and should at the same time have revenue raising powers  
10 adequate to meet those needs.

11 It is the submission of the City Council of  
12 the City of Sydney that local councils today are being  
13 called upon to provide services which cannot, or cannot  
14 all, be provided adequately from the revenue sources at  
15 their disposal.

16 It is our further contention that this serious  
17 problem cannot be resolved by the Municipalities themselves  
18 or by the Municipalities in co-operation with their  
19 Provincial Governments.

20 The real solution, and in our view the only  
21 practical and equitable solution, lies in a combined  
22 Federal-Provincial-Municipal attack on the problem. This  
23 can be undertaken, we suggest, without any Federal in-  
24 fringement of the rights of Provincial Governments in the  
25 Municipal field.

26 Taking all Municipalities urban and rural  
27 together, their total revenues and their total expendi-  
28 tures in the year 1960 were \$1.9 billion dollars.

29 Of this figure almost two-thirds, that is  
30 \$1.2 billion dollars was derived from the taxation of



1 real property.

2 Most local services benefit real property  
3 directly or indirectly. It is therefore, equitable that  
4 such services should be paid for by the property-owner  
5 according to the value of his property. The greater the  
6 value the greater the benefit. Services such as police  
7 and fire protection, public works, sanitation and waste  
8 removal, street lighting, parks and playgrounds, spring  
9 to mind in this respect. But what about education?

10 While it is perhaps true that modern well-built schools  
11 in a community have some effect on property values, can  
12 it really be argued that educational standards have much  
13 if any impact on property or the property-owner as such?

14 Is it, in short, equitable that the cost of  
15 elementary and secondary education in Canada should be  
16 borne largely by citizens in proportion to the value of  
17 their property?

18 We think not.

19 The question would perhaps be an academic one  
20 if education were only a small cost item in the local  
21 tax bill. But it isn't. It is as large as, or slightly  
22 larger than, all the other items added together.

23 In the year 1960, elementary and secondary  
24 education in Canada cost \$1,120 million. Of this sum,  
25 \$607 million was borne by local property taxpayers.

26 Total property taxes in the same year were  
27 \$1,200 dollars.

28 On average therefore, one half or slightly  
29 more than one half of property tax bills across Canada  
30 are for education purposes. And year by year, education



1 takes a bigger and bigger slice.

2 What has been the result?

3 First, property taxes have risen at a faster  
4 rate than average earnings.

5 In Nova Scotia in 1961, average wages and sal-  
6 aries were 2.1 times the 1946 level. Property taxes were  
7 2.8 times the 1946 level. Education costs included in the  
8 1961 tax bills were 3.6 times the 1946 level. All other  
9 local services were 2.3 times the 1946 level. Basically,  
10 property taxes are rising faster than incomes because of  
11 education costs.

12 Second, because of the rapidly rising costs of  
13 education, local councils have had to restrict other need-  
14 ed services and consequently have had to slow down the  
15 healthy growth and development of their communities. The  
16 alternative would be to raise property taxes to levels  
17 which would impose serious hardships on most home-owners  
18 and on many commercial and industrial enterprises.

19 Third, and possibly most important, education  
20 itself has not been getting a fair deal. The poorer  
21 communities, the poorer provinces simply have not been  
22 able to find the money to provide the needed facilities.  
23 The inevitable result is a patchwork of varying educat-  
24 ional standards across our nation.

25 In Prince Edward Island 1.2% of elementary  
26 school teachers are University graduates.

27 In British Columbia the figure is 17.9%.

28 In Prince Edward Island 39% of secondary  
29 school teachers are University graduates.

30 In British Columbia the figure is 72%.



1 In Prince Edward Island the average cost of  
2 educating one pupil in an elementary or secondary school  
3 is \$131.

4 In British Columbia it is \$345.

5 Elementary school teachers in Prince Edward  
6 Island received an average salary of \$2,636. in 1961. The  
7 British Columbia figure was \$4,752.

8 Secondary school teachers averaged \$3,609. in  
9 P.E.I. and \$6,496. in B.C.

10 These are Canadian Tax Foundation figures  
11 The Foundation says, and I quote:

12 "The evidence is strong that local and even  
13 provincial ability to pay must be a deciding  
14 factor in the level of education prevailing  
15 within a province".

16 These, very briefly, are the drawbacks of  
17 our present system of education financing.

18 Is there a practical solution?

19 The City of Sydney suggests that there is.

20 Some \$300 million of the \$1120 million expended  
21 on elementary and secondary education in 1960 -- that is  
22 a little over one quarter of the total -- represented  
23 the cost of providing and maintaining school buildings  
24 and grounds. Since this is precisely the kind of activity  
25 which can best be done, and is in fact being done, at the  
26 local level and since property does benefit from it to  
27 some extent, we see no objection to all or most of this  
28 cost being borne locally by the property tax-payer.

29 The balance of the cost, that is the \$820 mill-  
30 ion for teachers' salaries, textbooks etc., we consider



1 should be borne at the provincial and federal level.

2 We are not asking the Federal Government  
3 suddenly to produce half a billion dollars or more out of  
4 the hat. We do suggest though that, because education is  
5 a matter of national concern and because some Provinces  
6 clearly do not have the same revenue resources as others,  
7 the Federal Government should, as a matter of urgency,  
8 make a beginning by channelling monies to Provincial  
9 Governments on AN ABILITY-TO-PAY-BASIS for education  
10 purposes.

11 This can be done either by way of a specific  
12 education grant -- or, if that is objected to -- by in-  
13 creasing the present Federal Tax equalization payments  
14 to Provinces in a manner which will recognize each  
15 Province's educational needs and revenue resources.

16 If you would like a figure may I suggest  
17 \$100 million in 1964 with appropriate upward adjustments  
18 according to needs in future years.

19 With your permission Mr. Chairman, I will now  
20 refer very briefly to the City of Sydney's second and  
21 third proposals and the reasoning behind them.

22 We suggest that the home-owner be permitted to  
23 claim all, or a substantial proportion, of his property  
24 taxes and his mortgage interest as deduction for Federal  
25 income tax purposes. We suggest further that the result-  
26 ing loss to Federal revenues be made good by an adjust-  
27 ment in income tax rates.

28 I have made some very approximate calculations  
29 from which it would appear that the total tax savings  
30 to home-owners would possibly be \$150 millions in each



1 case, that is \$300 million in total.

2 The same home-owners together with all other  
3 Federal income tax payers would of ~~course~~ have to pay  
4 income tax at a higher rate to make good the loss to the  
5 Federal Government.

6 The over-all result would be a redistribution  
7 of the income tax burden. Persons who do not own their  
8 own homes or who own low-value homes in relation to their  
9 taxable incomes would pay more than at present. Persons  
10 who own relatively high-value homes in relation to their  
11 taxable incomes would pay less than at present.

12 The advantages which would flow from the  
13 implementation of these two proposals would, we suggest,  
14 be very significant indeed.

15 Home-ownership and the ownership of better  
16 class homes would be encouraged.

17 This in turn would create employment in the home  
18 construction industry.

19 The demolition of slum properties would be  
20 accelerated.

21 And total residential assessments would rise  
22 in local communities thereby providing needed additional  
23 revenues to Municipal Governments.

24 It is well known, I believe, that in the  
25 United States both local property taxes and mortgage  
26 interest are allowable deductions for Federal income tax  
27 purposes, while in Britain mortgage interest but not  
28 property tax is an allowable deduction. In Canada, owners  
29 of income properties are allowed both these deductions.

30 In conclusion, Mr. Chairman, I might say that



1 the Sydney City Council in putting forward the proposals  
2 in this submission had very much in mind the severity  
3 and harshness of the burden of local property taxation  
4 on that large section of the population with fixed low  
5 incomes. Most widows and persons over 65 are in this  
6 class. In Sydney, between 20% and 25% of the adult popu-  
7 lation are widows or pensioners. For them every addi-  
8 tional cent on the property tax rate is another turn of  
9 the screw.

10 One of the many advantages that could flow  
11 from the implementation of our proposals is that Munic-  
12 ipalities would be able to afford to give much greater  
relief in the form of tax exemptions to these people than  
14 is at present possible.

15 Apart from this we believe that our proposals  
16 are sound and necessary practical measures which would,  
17 if carried out, result in a very significant revitaliza-  
18 tion of our cities, towns and rural municipalities and  
19 would be of immeasurable benefit to education, to the  
20 nation's youth, to the Canada of tomorrow.

21 Thank you, Mr. Chairman and gentlemen.

22 THE CHAIRMAN: Thank you very much. Your two  
23 points are extremely interesting to us. I am not sure  
24 that the first one is really a matter primarily of our  
25 concern, as determined by our Terms of Reference, but,  
26 however, it is an interesting one, and I propose to  
27 discuss it.

28 I would like to know more about it.

29 The second very clearly is, I think, and we  
30 will come to that, but you will probably put the first of



1 these to your Provincial Committee, I think it is, which  
2 I believe is to hold hearings. I don't know. Have they  
3 done so yet?

4 MR. SANDFORD: Are you referring to the fact  
5 that the Province of Nova Scotia have engaged a firm of  
6 Chartered Accountants?

7 THE CHAIRMAN: I am, exactly.

8 MR. SANDFORD: Well, I understand the firm  
9 has received a submission from the Union of Nova Scotia  
10 Municipalities on Taxation Questions generally, including  
11 education.

12 THE CHAIRMAN: Good. Well, of course, the  
13 first thing that comes to my mind in connection with a  
14 shift of the burden of educational costs to the Federal  
15 Government is what our Provinces have to say about such  
16 a shift, as some time ago when the Federal Government  
17 attempted to bear more of the costs of higher education  
18 there was considerable difficulty with one of the Prov-  
19 inces, and I wonder whether that would recur here?

20 MR. SANDFORD: Well, I did have this in mind,  
21 sir, and for that reason I did suggest, and this is not  
22 an original suggestion again. In fact there is very  
23 little original in this submission beyond a suggestion  
24 made by the Canadian Tax Foundation that if any one or  
25 more of the Provincial Governments object to a direct  
26 grant for education, a way around this which might prove  
27 acceptable would simply be to adjust the tax equalization  
28 payments which the Federal Government makes to Provinces.

29 This is, as you know, a given base of income  
30 tax and revenue resources and so on, and that could be



1 adjusted on some fairly simple formula which took into  
2 account the educational needs of each Province and the  
3 resources of each Province, and I would have thought that  
4 if it were done in that kind of way that the objection,  
5 if any, would be fairly slight. I don't know. I can't  
6 read the minds of Provincial Governments, but I would  
7 have thought that this would largely have overcome the  
8 objection from a Provincial level.

9 But, in any case, sir, it does seem to me that  
10 on this question of education that this is something that  
11 really we should not be too provincial about. That this  
12 is a national problem and we have to look at it as a  
13 national problem. It is a thing, I suggest, that from the  
14 financial point of view, and I am speaking only from the  
15 financial point of view, that we do need Federal, Provin-  
16 cial, and Municipal action on this. The Provinces and  
17 the Municipalities can't cope with this situation, simply  
18 by virtue of the fact that some Provinces are much more  
19 wealthy than others.

20 THE CHAIRMAN: Thank you. I will ask one more  
21 question. You refer in the submission by the City of  
22 Sydney to the allotment being based on an ability to pay.

23 I am not very clear what is meant by that.  
24 I recognize that it should be based on need.

25 MR. SANDFORD: What page is that, sir?

26 THE CHAIRMAN: It is the first page, Summary  
27 of Submission of the City Council of the City of Sydney,  
28 under the heading "The City Council of the City of  
29 Sydney proposes", and it is item number (2), the third  
line.



1 MR. SANDFORD: The term "ability to pay", sir,  
2 what I meant there, sir, was that some Provinces, when one  
3 takes into account their revenue resources, have a much  
4 greater ability to pay the cost of education than other  
5 Provinces, and that the Federal Government should take  
6 this ability to pay, or inability to pay, into account.

7 In other words, I am not suggesting that the  
8 Federal Government should simply say we have one hundred  
9 million dollars. We will distribute this to the Provin-  
10 cial Governments on the basis of so much a head, because  
11 this is not solving the educational problem of having some  
12 Provinces with more resources than others. I think we in  
13 Sydney, for example, can very clearly appreciate the  
14 difficulties of our own Provincial Government in this  
15 matter of supplying funds for education in this Province.  
16 Roughly half the total amount spent on elementary and  
17 secondary education is supplied by the Province.

18 We in Sydney get only 15%, but that is another  
19 matter, and I think we can understand the Province is in  
20 some considerable difficulty in providing the money for  
21 this. In a richer province the difficulty would not be  
22 the same.

23 So we are suggesting that the Federal Government  
24 take this ability to pay for education at a Provincial  
25 level, or the lack of resources, into account in distrib-  
26 uting this money.

27 Have I made myself clear sir?

28 THE CHAIRMAN: Well, I think so, but I am not  
29 quite sure that you are not contradicting what you said  
30 previously in part, in that if it were done this way some



1 of the cost of education would then rest on property.

2 MR. SANDFORD: Oh, yes.

3 THE CHAIRMAN: And over and above the housing  
4 costs.

5 MR. SANDFORD: That part of education cost  
6 which relates to the provision and maintenance of school  
7 buildings would still rest on property.

8 THE CHAIRMAN: And more would if it were taken  
9 care of on the basis of inability to pay.

10 MR. SANDFORD: Well, the hundred million  
11 dollars which I quoted as an example would not entirely  
12 exempt the property payer for any liability for the cost  
13 of education. I am merely suggesting this figure because  
14 I am a great believer in doing things gradually, and not  
15 all at one time. It seems to me that this would be a  
16 good way to start, but eventually it would be to exempt  
17 the taxpayer of the responsibility of financing the  
18 operational cost of education. Teachers' salaries, and  
19 the like. I am still suggesting that the property owner  
20 should bear part of the burden of building and maintaining  
21 schools, because property benefits from that, and this is  
22 a thing that is done at the local level.

23 MR. PERRY: I would like to talk to Mr. Sandford  
24 about some of his basic assumptions.

25 One of them is that the property tax is  
26 naturally a fair tax.

27 Why do you assume this?

28 MR. SANDFORD: This is a basic assumption that  
29 I make

30 MR. PERRY: It is absolutely basic, and a fairly



1 general one.

2 MR. SANDFORD: May I say that in making this  
3 assumption it is not a dogma. It is not something I  
4 claim a hundred per cent. Welfare and Relief don't  
5 benefit property, but this city for example has asked that  
6 property owners be relieved from welfare. We are picking  
7 on the main one, education.

8 Now, our reasoning is simply this. It may or  
9 may not be sound. I know this has been challenged by many  
10 authorities. Some agree, some don't. We think like  
11 this. We say "well, basically, if you are raising tax  
12 revenues you can do it by taxing income, sales, purchases,  
13 assets." Now, in the case of local services, excluding  
14 education, most other services, it seems only fair that  
15 you should raise your taxation revenues by taxing assets,  
16 mainly property, because, by and large, it is appreciated  
17 that benefits -- if you have your house in a well run  
18 community, this tends to increase the value of your house,  
19 and the benefit that you get from the use of that house,  
20 and we think that of the three kinds of tax, income, sales,  
21 assets or property tax, the property tax is the fairest.  
22 This is just a general statement.

23 As I say, we are not being a hundred per cent  
24 dogmatic on all points, but when it gets to services not  
25 benefiting a property directly or indirectly, or of a  
26 national concern, such as education, such as hospitaliza-  
27 tion and so on and so forth, where there the principle  
28 seems to have been accepted that this should not be a  
29 charge on the property, but it should be a sales tax  
30 charge, then we feel that it is wrong to ask the property



1 owner as such to pay for the cost of the service.

2 Not only is it unjust to him, but it is even  
3 more unjust to the service concerned. When this service  
4 is a very expensive one, such as education, what we are  
5 saying, in effect, is "here you are putting education in  
6 a financial straitjacket".

7 I mentioned in my own brief, I think, that any  
8 burden -- at one time, if I remember from history, public  
9 education was first financed by a tax on whiskey. Well,  
10 probably at the time that was a very progressive move. At  
11 least we were getting publicly financed education. Now,  
12 no one would suggest today that education should be fin-  
13 anced by a tax on whiskey. If for example education were  
14 financed by a tax on cigarettes, with everything you are  
15 hearing these days there might be only a decreased amount  
16 of money available next year as there is this year, and  
17 similarly with property tax.

18 True, any Council can increase its tax roll,  
19 increase its assessments. This is what we have all been  
20 doing. I would be the last to suggest we have got to the  
21 limit. If I said that I would just be joining the prophets  
22 who have been proven wrong, but obviously there must be  
23 some limit within reason.

24 I, for example, am paying something like \$450.  
25 a year on my house. If I were paying \$2,000. a year,  
26 plainly that would be unreasonable for that type of house.  
27 There must be some limit, and we feel that this limit is  
28 being reached when people are having to sell the houses,  
29 or having the houses sold for taxes. We have many  
30 properties in Sydney sold for taxes each year. Granted,



1 most of them are the poor quality properties, or lots of  
2 land, but we feel the point is being reached where if we  
3 go any further we are just causing more harm than doing  
4 good, and in particular when it comes to the old age  
5 pensioners, and widows and so on, the limit has long past  
6 been reached for them on property tax.

7 MR. PERRY: I think you are going beyond my  
8 original question. You are saying now that this is a  
9 very heavy tax, and we can leave that.

10 What I really wanted to get from you is a  
11 statement of your basic proposition, which you did give  
12 at the beginning, that the property tax should be related  
13 only to benefits conferred on the property owner.

14 I could visualize that in ten or fifteen years  
15 in many municipalities there would cease to be any poss-  
16 ible justification for property tax if this were on  
17 principle.

18 I live in an area where the subdivider incurred  
19 most of the expenses that the Municipality would ordinarily  
20 incur. There is very little that the Municipality does  
21 for me sitting in my home. The thing that they really  
22 do for me now is to build good roads, so that I can drive  
23 quickly to work, which has a great deal more to do with  
24 earning my income than it has to do with protecting my  
25 property.

26 What I am really getting at is the more general  
27 proposal as to how many individual taxes have to be  
28 related to individual functions, and if you go back in  
29 history you will find that probably the first reason that  
30 a property tax was imposed was so that a local school



1 could be built, so that one might argue that if there is  
2 any function which justifies the property tax it is educa-  
3 tion, that perhaps the other things are external.

4 MR. SANDFORD: Well, are you going back into  
5 Canadian history or British history?

6 MR. PERRY: Canadian history particularly.  
7 There were two additional needs, one for a local road,  
8 and the other for a school teacher.

9 MR. SANDFORD: Well, as I understand it, going  
10 back into British history, with which I am a little more  
11 familiar than Canadian history, the origin of the property  
12 tax around the time of Elizabeth the first was a tax to  
13 enable the local authorities, whatever it was called at  
14 that time, to deal with vagrants.

15 MR. PERRY: With poor relief, sure.

16 MR. SANDFORD: Yes.

17 MR. PERRY: In other words it is only in  
18 modern times that the property tax has had anything to  
19 do with servicing property.

20 MR. SANDFORD: Yes, and isn't it a fact that  
21 in the older days the ownership of property was very  
22 much a measure of one's wealth and ability to pay? Today  
23 this is not the case. A wealthy man has paper stocks and  
24 bonds. This is where his wealth is, and not so much in  
25 the home he owns.

26 MR. PERRY: Would you argue that every element  
27 in the tax system, taken by itself, should be a fair burden  
28 on ability to pay, or can one be satisfied if the whole  
29 package of taxes, taken by themselves, represent a fair  
30 burden?



1 MR. SANDFORD: It is the package I am interest-  
2 ed in.

3 MR. PERRY: With all respect, it doesn't sound  
4 as though it is from your brief, because you tear the  
5 property tax right down to the ground.

6 MR. SANDFORD: Well, I think we do say in one  
7 of the briefs that we have no objection to property tax  
8 as such.

9 MR. PERRY: No, you say this---

10 MR. SANDFORD: On page 5 of the City's brief  
11 we don't contend that property taxation is unjust in  
12 principle. "A good case can be made for it, particularly  
13 when it is regarded as part of the overall pattern of  
14 Federal/Provincial/Municipal taxation".

15 Now, my personal view of this is that one  
16 can't look at any given tax and say that because that  
17 tax in itself might be regressive, or perhaps a little  
18 unfair, that it should be done away with. One has to  
19 look at the package, the whole pattern of Federal,  
20 Provincial, Municipal taxation, but if one takes a tax  
21 such as property tax, it does have a regressive nature  
22 to it.

23 If the impact of the property tax grows and  
24 grows, if it gets bigger and bigger, then the regressive  
25 nature becomes much more important than if it is smaller.

26 I mentioned that the total tax was 1.2 billion  
27 dollars in 1960. 30 years ago it was something like  
28 240 million dollars, five or six times less.

29 MR. PERRY: Have you looked at the comparison  
30 of income tax? That is even more shocking.



1 MR. SANDFORD: I am sure the comparison is  
2 even greater.

3 MR. PERRY: Yes.

4 MR. SANDFORD: But I know the figures can  
5 argue both ways on this, but it does seem to me that  
6 property taxes are all right within limits. I am not  
7 suggesting a hard and fast rule, that one should only  
8 apply property taxes to those services which benefit  
9 property, but this is a principle we should have in mind  
10 all the time, and the trouble with education, by using  
11 half the property tax to finance education we are, in my  
12 submission, doing damage to the education needs of this  
13 country. It is just not the answer.

14 MR. PERRY: Well, I have been trying to steer  
15 clear of this problem of financing education, but I  
16 think we would have to say that every witness says some-  
17 what the same thing as you do. Income tax is good, but  
18 don't overdo it; death duties, and so on. Everything  
19 is fine, but there is too much of it.

20 MR. SANDFORD: Yes, I do appreciate that, and  
21 what I am saying in effect is that we should have a little  
22 more income tax.

23 MR. PERRY: Oh dear.

24 MR. SANDFORD: Even though other people would  
25 say the opposite.

26 THE CHAIRMAN: Well, that is fair enough.

27 MR. PERRY: As long as you are willing to stand  
28 on that.

29 MR. SANDFORD: Yes, very much so.

30 THE CHAIRMAN: You are making more progress



1 with Mr. Perry than I usually do.

2 MR. SANDFORD: I might say this, that on this  
3 business of education, in talking to members of the public,  
4 the average layman about education, I find so many who  
5 say "well, education should be paid for out of income  
6 tax". This seems so obvious to them. You should pay for  
7 education according to your ability to pay. You can't  
8 pay according to the number of children you have in  
9 school. I have had this said to me by a service station  
10 attendant coming to Halifax yesterday. "Education should  
11 be paid for out of income tax".

12 I am not going whole hog for that, but I am  
13 suggesting ten per cent should be paid for out of income  
14 tax, no more and no less.

15 MR. PERRY: I am afraid I have gone a little  
16 ahead of you, and I am looking at tax revenues as a  
17 great pot where things are poured in and taken out, and  
18 I am beginning to feel that it doesn't matter where it  
19 ends up, as long as individual components themselves  
20 aren't doing damage, because as you know a lot of money  
21 goes up to Ottawa and back down again in various forms,  
22 and if you wanted to take all these as support of educa-  
23 tion you could probably prove that the Federal Government  
24 are paying for all education in Canada.

25 It is just that they are not tagged at the  
26 present time. So I think we are on fairly common ground  
27 here, except that I would have to point out to you that,  
28 as I said before, everyone will concede that each  
29 individual tax is fine, but that at present rates this  
30 tax, and it goes on through the list, is having very



1 serious effects on economic growth, economic development,  
2 anything you want to mention.

3 MR. SANDFORD: I was hoping, Mr. Perry, that  
4 you would be my firmest supporter in this.

5 MR. PERRY: I haven't worked for the Tax  
6 Foundation for a couple of years. Not that I have  
7 rejected them entirely.

8 MR. SANDFORD: Isn't it really to find out what  
9 is the form of taxation which will do the job, give us  
10 the educational services we require, and at the same time  
11 do justice to the people being taxed? It doesn't really  
12 matter from which level it comes, but which is the best  
13 method.

14 MR. PERRY: Well, I suppose that in all forms  
15 of public life you are making value judgments. Mr.  
16 Carter is President of the Canadian Welfare Council,  
17 and I am sure that he is probably persuaded that Welfare  
18 is an important function of Government -- you can go to  
19 the Canadian Schools Association, and you can just  
20 visualize the whole country being plastered with roads,  
21 and that is the most important thing to be doing.

22 Education is obviously a matter of real  
23 importance. The problem is to sort these things out,  
24 and give them their proper weighting.

25 MR. SANDFORD: This is a value judgment without  
26 any doubt. I am putting education as priority here. This  
27 is my opinion. It may be wrong.

28 THE CHAIRMAN: There would be a lot of people  
29 on your side.

30 MR. SANDFORD: I would hope so, yes.



1 THE CHAIRMAN: I have no doubt about that at  
2 all.

3 MR. GRANT: What gives me some concern, Mr.  
4 Sandford, is how we can use your representations, if the  
5 Commission has a will to do so, in its recommendations as  
6 contained in the report which will be submitted to the  
7 Federal Government, having regard of course to the fact  
8 that education falls under Section 93 of The British  
9 North America Act, under the exclusive jurisdiction of  
10 the Province. We can, and our duty will be to recommend  
11 various ways of raising money, but I doubt if it goes to  
12 making any recommendations as to how that money should be  
13 spent.

14 I suppose the essence of your submission  
15 could be summed up in the words that education is a thing  
16 that is becoming too costly for the Municipalities to  
17 bear, and from your observation too costly for certain  
18 Provincial Governments to bear, and therefore that relief  
19 must come from the Federal Government?

20 MR. SANDFORD: That is the essence of the  
21 submission.

22 MR. GRANT: And that that relief would probably,  
23 having regard to the experience which the Federal Govern-  
24 ment has had with the Provinces in connection with Univer-  
25 sity grants, that you would recommend that any assistance  
26 from the Federal Government should be by way of a grant  
27 without any strings attached to the Provinces, which I  
28 believe was the ultimate formula with respect to the  
29 grant to the Province of Quebec, which refused to take it  
30 up when it first became available. I believe it



1 accumulated for a matter of five or six, or seven years,  
2 but then ultimately they arrived at a solution acceptable  
3 to the Province and to the Federal Government, whereby  
4 the administration of that money would be left entirely  
5 in the hands of the Province of Quebec, and the division  
6 of it among the Universities within that Province would  
7 be a matter for that Province to decide.

8 Well, along that line you would expect that  
9 any assistance that might be forthcoming from the Federal  
10 Government would be by way of unconditional grants? That  
11 is, without any strings attached.

12 MR. SANDFORD: Yes I would sir. I would just  
13 make a point.

14 A suggestion was made to me recently -- well,  
15 if this is what you are looking for, why don't you simply  
16 ask for a bigger share of the Federal income tax for the  
17 Provinces. Doesn't this come to the same thing?

18 Well, it is not quite the same thing, in this  
19 sense. I would suggest that the Federal grant to the  
20 Provinces for education, in whatever form it be, should  
21 be labelled in some way as being for education, whatever  
22 the Provinces do with it. Whether they spend it on  
23 education or something else is entirely a matter for them  
24 and the electors in that Province, but I feel that in the  
25 Federal budget, for example, it should be clearly shown  
26 that so many million dollars represent grants to the  
27 Provinces for education purposes, even if that grant were  
28 a part of the taxation equalization payment, so that the  
29 principle is clearly established.

30 This is a national problem so far as financing



1 is concerned. This is the point I think should be made.

2 MR. PERRY: I was just wondering whether Mr.  
3 Sandford is concerned that the Federal Government now  
4 has a deficit of six or seven million dollars a year?

5 MR. SANDFORD: I am very concerned about that  
6 sir. Yes sir. This is, of course, part of the difficulty.  
7 I appreciate this is part of the Commission's difficulty.  
8 Here we have a deficit, and I am suggesting something  
9 that would in a sense increase the deficit. It has to  
10 be looked at in the light of all the other complex prob-  
11 lems that people have to deal with, and it may well be  
12 that the Federal Government, for example, as the Sydney  
13 Council often does, might say "Well, we do think this is  
14 a good idea, but we just can't do it right now, and next  
15 year we will look at it again."

16 All I am trying to do is plant the seed, so  
17 that whenever this thing seems feasible something might  
18 be done about it. I am very patient in these things.  
19 One learns to be after many years in it.

20 THE CHAIRMAN: I gather that you propose to  
21 shift the educational cost in part on to income tax?

22 MR. SANDFORD: Yes.

23 THE CHAIRMAN: And what perhaps would be a  
24 hike in income tax?

25 MR. SANDFORD: Yes, this is what I am suggest-  
26 ing sir.

27 THE CHAIRMAN: We will break before we go to  
28 the second point, which I want to hear more about. We  
29 will break for ten minutes, and come back to that.

30 ---Short Recess.



1 THE CHAIRMAN: Mr. Sandford, we would like now  
2 to come to the point that you raised to the effect that  
3 "The Income Tax Act be amended to permit home owners to  
4 claim as deductible expenses their payments of property  
5 taxes and payments of interest on mortgages, or to claim  
6 a substantial fraction of each of such payments."

7 We recognize at the present time that the home  
8 owners really have an advantage over people who rent  
9 premises because the money that they have invested in  
10 the home doesn't produce income which is subject to tax,  
11 whereas the people who rent premises do pay that tax, and  
12 if you are going to relate one to the other, to compare  
13 your cost of rental and home, you have got to make an  
14 income tax adjustment.

15 Now, you propose to go further along this  
16 road, and would weight this still more in favour of the  
17 home owner.

18 Now, perhaps that is desirable, but it moves  
19 the tax further from neutrality, and I suppose we, as a  
20 Commission, should first of all look at the neutral  
21 position and see to what extent it should be moved away  
22 from neutrality to serve some social or economic purpose.

23 Now, you give reasons for this recommendation  
24 of yours, and I think we would like to test the reasons.

25 MR. SANDFORD: May I just interject, sir, that  
26 we challenge your basic premise there, that the home  
27 owner is already getting advantages in comparison with  
28 the owner of income property.

29 I find myself, personally, I am in the position  
30 that I own and live in a home, and I also own a home which



1 I rent out. Now, this began about two or three years ago,  
2 and the first time I realized that as soon as one becomes  
3 a landlord the whole power of local government taxation  
4 operates in one's favour as compared with being an owner  
5 of property in which one lives.

6 For example, just dealing with the man in a  
7 small way, in my case, who does rent out one home, and  
8 owns another one, I find in the case of the home I rent  
9 out that in actual fact I make a small cash profit on it,  
10 but for income tax purposes, quite legitimately, I make  
11 an income tax loss, and each year. Now, this income tax  
12 loss I can set off against my salary.

13 I grant that part of this loss is depreciation  
14 and there is a recapture provision, and so on, but  
15 basically each year I look at the income property I have,  
16 and add up the savings I have in income tax to me, and  
17 add up the small cash profit I make, and add on to that  
18 the increase in equity of the property each year, and I  
19 find that I have considerable advantages by owning a  
20 property for income purposes, as compared to owning a  
21 property in which I live myself, and I don't quite see  
22 your point that the home owner has most of the advantages  
23 there.

24 MR. PERRY: Well, I think you are really  
25 changing the point I put before you. You are challenging  
26 the basis of determining income in the case of a person  
27 owning property. You are suggesting that the method  
28 used by the Department is generous?

29 MR. SANDFORD: Yes.

30 MR. PERRY: And you are suggesting that it is



1 not even accurate, because you say that to you it looks  
2 like a profit, but when you file your tax return it is  
3 not. Well, that may be the case. At the moment I am not  
4 discussing whether it is a proper method of income. I am  
5 simply saying when one contrasts the person who rents a  
6 house with the person who owns a house, and we assume  
7 they have both the same amount of capital, the person who  
8 rents the house and has the twenty-five thousand dollars  
9 which is in bonds which he has not invested in the house,  
10 would pay income tax on the income on the twenty-five  
11 thousand dollars, whereas the person who owns the house  
12 would have the twenty-five thousand dollars in the house,  
13 and would not pay any income tax on the income from the  
14 twenty-five thousand dollars.

15 Now, in England at one time in the second case  
16 they imputed income to that, and he paid taxes on it.  
17 Therefore put the two positions in equality, and I am  
18 simply saying that we by these particular circumstances  
19 are giving an advantage to the homeowners against the  
20 tenant, and what you propose would go further in that  
21 direction.

22 MR. SANDFORD: Well, again sir, may I challenge  
23 one of your statements? You are comparing two people, one  
24 of whom has twenty-five thousand dollars in bonds, and one  
25 who has twenty-five thousand dollars and buys his own home  
26 with it. Well, may I suggest that in practice this is a  
27 very rare case. Nearly everybody who buys a home is  
28 borrowing through mortgage to own that home. It is not  
29 a case that they have twenty-five thousand dollars which  
30 they can put either in the home or invest. So we are



1 dealing almost with a mythical person.

2 THE CHAIRMAN: Oh, I think there are lots of  
3 people who do.

4 MR. PERRY: If you visualize not buying a home,  
5 but selling one, this situation must arise in hundreds of  
6 cases, where you have owned the home and you sell the  
7 home and live in an apartment and put the proceeds of  
8 your home into bonds. This is the same money. Formerly  
9 when it was in the home, you were paying no tax on the  
10 income you were receiving from it as an investment.  
11 Suddenly you have got it in bonds, and you are paying tax  
12 on the income from the bonds.

13 MR. SANDFORD: As a home owner, granted you  
14 are not paying Federal income tax in the same way as you  
15 would be on bonds, but you are paying Municipal taxes,  
16 are you not?

17 MR. PERRY: We are talking about income tax  
18 here, aren't we?

19 MR. SANDFORD: Yes. What I am failing to  
20 appreciate, if I have the suggestion correctly, is that  
21 the home owner has certain, on balance has certain finan-  
22 cial advantages over the person that doesn't put his  
23 money into a home.

24 THE CHAIRMAN: Exactly.

25 MR. PERRY: Exactly. This is probably the  
26 only form of investment the yields of which aren't  
27 subject to income tax.

28 MR. SANDFORD: Well, granted that is one side  
29 of it.

30 MR. PERRY: This is all the Chairman is trying



1 to establish.

2 THE CHAIRMAN: My wife suggested to me the  
3 other day that perhaps we might sell our house and live in  
4 an apartment. The computation that was necessary to  
5 recognize what would happen financially -- I would be  
6 paying more tax than I am now.

7 MR. SANDFORD: May I clarify the issue? Mr.  
8 Perry said that home owning is one of the only forms of  
9 investment which is not taxed.

10 MR. PERRY: The yields of which aren't subject  
11 to income tax I said.

12 MR. SANDFORD: But what kind of tax could you  
13 put on home ownership anyway? This is an asset, not an  
14 income.

15 MR. PERRY: You could put the tax which Britain  
16 has had for many years, the tax on the imputed value of  
17 the home.

18 MR. SANDFORD: Which, of course, they have  
19 abolished in recent years.

20 MR. PERRY: Yes, and the only point the  
21 Chairman was making was that we in Canada haven't had  
22 this kind of tax.

23 MR. SANDFORD: In Britain at the same time  
24 they were allowing on mortgage interest, and now they  
25 have abolished the tax on the mortgage interest.

26 THE CHAIRMAN: Are you sure that they still  
27 permit a deduction of interest? They didn't abolish that  
28 at the same time.

29 MR. SANDFORD: I am almost sure sir. I  
30 couldn't swear to it.



1 THE CHAIRMAN: I don't know.

2 MR. PERRY: I had made the opposite assumption  
3 that this would have gone with the income on the other  
4 side.

5 MR. SANDFORD: I never quite understood why  
6 in Britain mortgage interest was allowed as a deduction  
7 for income tax. I am now asking for that here, and  
8 basically what I am asking for is something to encourage  
9 the home owner. I feel that this should be encouraged,  
10 and I am looking to see if there is any way that this  
11 could be done through the Federal Income Tax Act. I  
12 feel that if this could be done so that the home owner  
13 pays less it would be a good thing.

14 THE CHAIRMAN: I would like you to recognize  
15 that the law now does encourage the home owner. What you  
16 are proposing to do is to further encourage the home  
17 owner?

18 MR. SANDFORD: Yes.

19 THE CHAIRMAN: You suggest that employment in  
20 the home construction industry would be stimulated if  
21 that were so, and I have not any doubt that this would  
22 possibly increase the number of homes built.

23 I wonder how effective it would be? I have  
24 not any way of knowing.

25 MR. SANDFORD: No, this is just a probable  
26 tendency that I am indicating. This is something that  
27 I wouldn't care to estimate. It seems to me that if you  
28 are going to encourage home ownership, and the ownership  
29 of better class homes, automatically insofar as you are  
30 successful you are going to stimulate the building



1 industry.

2 THE CHAIRMAN: This would not be as effective  
3 as the generous mortgages which are now provided. I  
4 wouldn't think.

5 MR. SANDFORD: The generous mortgages?

6 THE CHAIRMAN: I think so. Under the National  
7 Housing Act the mortgages are generous.

8 MR. SANDFORD: Well, generous is a relative  
9 term. They are certainly generous with what they have  
10 been in Canada, but I certainly wouldn't regard them as  
11 generous compared with mortgages in the United States.  
12 I know one can have the conservative with a small "C";  
13 with a small point of view that the home owner should be  
14 able to make a down payment of ten or fifteen percent of  
15 the cost of his house. Frankly that is not my point of  
16 view. In the States, as you know, if you are a veteran  
17 you can acquire a house with no down payment, and if you  
18 are not a veteran, you can acquire a house worth fifteen  
19 thousand with a down payment of four or five hundred dollars.

20 Personally I deplore the ungenerosity, in  
21 my view, of the present central mortgage financing  
22 arrangement in this country.

23 THE CHAIRMAN: I think I used the word generous  
24 contrasting the present situation with what it would be  
25 if there were no Government assistance, if it were left  
26 to the ordinary commercial test.

27 MR. SANDFORD: Oh, yes, definitely yes.

28 MR. GRANT: There might be an element of  
29 abuse in such a proposal, in that say a man with a sub-  
30 stantial holding, and the owner of a quite expensive house,



1 it might be to his advantage to put a mortgage on that  
2 property on a straight mortgage basis, and just leave it  
3 there, and then you would have a really quite substantial  
4 amount to deduct from his taxable income.

5 MR. SANDFORD: That is true.

6 MR. GRANT: Any such proposal might have to  
7 be restricted to those mortgages which are on an amortized  
8 basis.

9 MR. SANDFORD: A mortgage which was taken on  
10 for the purpose of acquiring a property, as it were. Not  
11 which was taken on after the property was purchased. Yes,  
12 I appreciate that this creates a problem in legislation  
13 I suppose.

14 MR. GRANT: And in determining whether or not  
15 an interest payment was permitted, or allowed?

16 MR. SANDFORD: Yes. On the other hand though  
17 a person who owned an expensive home and had no mortgage  
18 on it, and then took out a mortgage, partly with the  
19 purpose of gaining some tax advantage, the mortgage amount  
20 would presumably be invested and tax would be paid on that  
21 investment.

22 MR. GRANT: Except that he may put it in an  
23 equity, and with his 20% tax credit it might cost him  
24 nothing, depending on his age.

25 MR. SANDFORD: Yes sir.

26 MR. PERRY: What do you say, Mr. Sandford,  
27 about people who live in rented premises, say apartments,  
28 who probably indirectly pay their share of the property  
29 tax on the apartment? Do you think that this is the  
30 sensible way to live? People who wouldn't want to own



1 their own homes under any conditions, and who would feel  
2 that they were being subjected to discrimination?

3 MR. SANDFORD: I have actually had this very  
4 point put to me by a person renting an apartment in the  
5 City of Halifax recently. I would concede the right of  
6 every one to decide whether to live in an apartment or to  
7 own his own home, and further that in the larger cities,  
8 including Halifax, that often there are many incentives  
9 and encouragements to living in an apartment as compared  
10 to -- to renting an apartment, as compared to owning a  
11 home in a smaller town or city, but the proposition that  
12 a person who rents a home or an apartment is indirectly,  
13 and in an economic sense paying property taxes through  
14 his landlord, as it were, this is something that I used  
15 to believe. I am just wondering whether in fact this is  
16 really the case, that if one say rents an apartment, and  
17 it is a hundred dollars a month rent, of which twenty  
18 dollars is paid by the landlord to the Municipality in  
19 taxes, is the tenant in fact paying twenty dollars  
20 through the landlord to the Municipality? Doesn't a lot  
21 depend on what the landlord could charge anyway if there  
22 were no property taxes? He might still be able to charge  
23 a hundred dollars. It is like the old problem of Corpor-  
24 ation and income tax. Where does the burden really fall?

25 I suspect that it doesn't really fall wholly or  
26 mainly on the tenant. This is just an idea.

27 MR. PERRY: I would think it would be a lot  
28 easier to include your property tax in establishing your  
29 rents than it would be to include a Corporate income tax  
30 in establishing your prices. This is a direct charge in



1 the computation that you make in determining your invest-  
2 ment. However, I agree that this is not the only factor.  
3 The market has quite a bit to do with it.

4 MR. SANDFORD: Does the landlord or property  
5 owner in establishing his rent, is this a simply an  
6 arithmetic calculation where he takes all his expenses,  
7 including property tax and adds on a profit, or does he  
8 not in fact charge the amount the market will bear?

9 MR. PERRY: Well, you are a landlord. I am  
10 not. What did you do?

11 MR. GRANT: In a very minor way. One house.  
12 One rental unit doesn't set you up as an expert?

13 MR. SANDFORD: I would hope not.

14 THE CHAIRMAN: Well, if he sold that property  
15 and moved your rented premises, the one that you rent  
16 out, to an area where there were no services, and there  
17 were no taxes, surely the market would very quickly make  
18 it clear to you that you couldn't recover as much in rent  
19 as you can where you are now?

20 MR. SANDFORD: I didn't quite follow that sir?

21 THE CHAIRMAN: I said if there were no taxes  
22 in the next area that you moved to, and there probably  
23 were no Municipal services either, you wouldn't be able  
24 to rent your house for as much as you now rent it for,  
25 and therefore it is a fair indication that the tenant  
26 does make some contribution to taxes?

27 MR. SANDFORD: Yes, there is an element of  
28 this in it without doubt. I am just wondering how far  
29 it goes in practice.

30 For example, if one can conceive of an area



1 with no property taxes adjacent to an area with property  
2 taxes, I would think that the average tenant wouldn't  
3 care whether he purchased a house just within the border  
4 or just outside the border, and he would pay the same rent  
5 in both cases if the services were equal, would he not?

6 THE CHAIRMAN: Perhaps.

7 Slum clearance is another point that you make.  
8 I was doubtful whether this income tax/<sup>deduction</sup>which you speak  
9 of would have much effect in the removal of slums, seeing  
10 that people who live in slums aren't likely to pay taxes,  
11 and this would not assist them in any way.

12 MR. SANDFORD: What I had in mind there, sir,  
13 was that to the extent that this income tax deduction  
14 encouraged the ownership of property, of homes of better  
15 class property, there will be a tendency in any community  
16 for more homes to be built, better class homes to be  
17 built, and surely this would mean that there would be  
18 a lesser demand for slum properties.

19 For example, in the City of Sydney we are  
20 hoping, we are thinking about a low rental housing scheme,  
21 and one of the advantages we think that will accrue from  
22 this scheme, which will be quite small, is that people  
23 will move from fairly slummy properties into the low  
24 rental housing scheme. Other people will then move from  
25 the really bad slums into the fairly slummy properties,  
26 and the landlords of the really bad slums wouldn't be  
27 able to rent them any more. So this will encourage their  
28 demolition. This is the point I was trying to make here.

29 The mere creation of more and better class  
30 houses diminishes the demand for slums.



1 MR. PERRY: Perhaps you could refresh your  
2 memory on the arithmetic involved here. You gave some  
3 figures earlier of your own estimates of the costs.

4 MR. SANDFORD: The 150 million?

5 MR. PERRY: Was that the overall cost of these  
6 two?

7 MR. SANDFORD: I suggested as a rough figure  
8 that the loss in revenues to the Federal Government which  
9 of course would be made up in another way from granting  
10 mortgage interest as a deductible, as an allowable deduc-  
11 tion might be around 150 million dollars, and a similar  
12 figure might apply to property tax.

13 Are you asking me, sir, how I arrive at those  
14 figures?

15 MR. PERRY: No, I am just asking you what the  
16 figures were. I have forgotten.

17 MR. SANDFORD: In each case it is very roughly  
18 150 million. These are my own figures, frankly, worked  
19 out at a late hour last night, and they may be way off,  
20 but this was just to give some indication.

21 For example, the one on property tax is  
22 simply that the total property taxes throughout Canada  
23 are 1.2 billion dollars, and I just assumed that the  
24 average income tax payer was paying, including those  
25 who don't pay income tax, an average property owner paying  
26 at the rate of 15%. So I took 15% of one billion two  
27 hundred and called it 150 million.

28 It is this kind of calculation.

29 MR. PERRY: Yes, in that case you are probably  
30 quite high, because a good proportion of the property tax



1 would already be deductible as being on business?

2 MR. SANDFORD: Yes.

3 MR. PERRY: What you are really trying to get  
4 at is the residential property?

5 MR. SANDFORD: Yes. I eliminated the resid-  
6 ential property, but not the business property, but on  
7 the other hand I wondered whether my 15% might not be on  
8 the low side too.

9 MR. PERRY: That sounds a bit low too.

10 MR. SANDFORD: So it might be less than the  
11 150 million, and the other figure on mortgage interest,  
12 I simply took the number of owner-occupied homes in  
13 Canada. I think it is a little over three million, and  
14 took the average central mortgage loan on those homes a  
15 year or two ago, and discounted that by about 40% for the  
16 older homes, and then worked out the interest at six or  
17 seven per cent on that figure.

18 Again it might be on the high side, because  
19 there are many people who would have paid for a large  
20 proportion of their mortgage. Those figures are probably  
21 on the high side but I didn't want to put in very low  
22 figures, which would be misleading.

23 THE CHAIRMAN: Well, I think we understand  
24 your proposition, Mr. Sandford. Thank you very much  
25 indeed. You have laid this very clearly before us.  
26 If we don't appear to react enthusiastically to your  
27 proposition, it is essentially because we are testing  
28 what you have to say. We will certainly ponder your  
29 suggestions, and we thank you very much indeed for coming  
30 to see us.



1 MR. SANDFORD: I might say that we in Sydney  
2 don't claim to have all the answers, and that these are  
3 only suggestions, and on further thought we ourselves  
4 might not be enthusiastic about some of them, but we think  
5 there is some soundness in them.

6 THE CHAIRMAN: Yes Mr. Secretary?

7 THE SECRETARY: Mr. Chairman, we now have a  
8 brief to present to the Commission from the Innkeepers'  
9 Guild of Nova Scotia. Mr. Forbes Thrasher is Secretary  
10 of the Innkeepers' Guild. He is here to speak to the brief,  
11 which I would enter into the records as Exhibit No. 111.

12  
13 ---EXHIBIT NO. 111: Brief submitted by the Innkeepers'  
14 Guild of Nova Scotia.

15 SUBMISSION OF THE INKEEPERS' GUILD  
16 OF NOVA SCOTIA

17 Appearances: Mr. Forbes Thrasher.

18  
19 THE CHAIRMAN: Thank you Mr. Secretary. Good  
20 morning Mr. Thrasher.

21 MR. THRASHER: Good morning Mr. Carter.

22 THE CHAIRMAN: We have read your submission,  
23 and I observe that your members believe they are subject  
24 to some rather unfair competition from people who don't  
25 pay taxes. We would be very glad to have you speak to  
26 this. There is no need to read it, because we have  
27 already read it, but would you care to recap, or summar-  
28 ize? We would appreciate it

29 MR. THRASHER: There is not a great deal that  
30 I can add. It is a present and continent-wide situation,



1 and in the United States you will notice that they have  
2 taken some action so far as clubs are concerned, but they  
3 have not done anything about churches and educational  
4 institutions, but presumably they are studying it. It is  
5 a very difficult situation because you see if you take the  
6 manager of a hotel who is losing business to a club, he is  
7 very apt to be in the position of having some very good  
8 patrons of his hotel who will resent his having complained  
9 about the club putting on functions, and so therefore it  
10 was felt that it should be done as impressively as possible  
11 by the Trade Association, which is the Inkeepers' Guild.

12 The Guild does not represent restaurants, but  
13 nevertheless the restaurants feel it just about as badly  
14 as the hotel men do, except of course that there is the  
15 additional competition of the Y.M.C.A. as far as the hotels  
16 are concerned, and to a lesser extent the Y.W.C.A.

17 THE CHAIRMAN: Now, in order to correct this,  
18 you recommend that where a charitable or non-profit  
19 organization engages in commercial activities with persons  
20 other than members, or bona fide guests of members, they  
21 be taxed, except where the service is in furtherance of  
22 the objectives of the organization?

23 MR. THRASHER: Well, that has particularly to  
24 do with good works organizations and more especially  
25 churches, where there is an act of communion breakfast  
26 put on, or they are catering to a wedding reception which  
27 has been held, and as far as Jews are concerned,  
28 religious and dietary requirements have to be met.

29 THE CHAIRMAN: Well, I think everybody would  
30 agree with the purpose of what you say. Where people are



1 designed to provide non-profit services to their members  
2 and receive concessions for that purpose by way of taxa-  
3 tion, that they should stick to it

4 The only difficulty, as I see, with what you  
5 have to say is just how does one police it, or enforce it?  
6 It is rather hard to get at. The rules which you prescribe  
7 aren't easy rules.

8 MR. THRASHER: Yes. In New Brunswick and  
9 Prince Edward Island there are no Hotel Associations, nor  
10 is there one in Newfoundland, but through the rest of  
11 Canada, particularly out west, they are quite vigorous,  
12 and I think that through the personal work of the  
13 Secretary or the General Manager of that Association that  
14 where there is brazen advertising or circularization, and  
15 it can be proved that a place has gone into business that  
16 there should be accounts to present to the local tax  
17 division for the Deputy Minister for investigation. The  
18 hard part is where sponsors are gathering to know whether  
19 or not it is genuine, but I think there might be some  
20 hesitancy to sign a statement to this effect, and especially  
21 with the better type clubs.

22 THE CHAIRMAN: Yes, I can see a little diff-  
23 iculty there Some of the organizations to which you  
24 refer out west are, I believe, to appear before us.

25 MR. THRASHER: I notice Saskatchewan is listed,  
26 and theirs will be on the same subject

27 THE CHAIRMAN: One comment that has been made  
28 in your submission is that you might be sounded out as to  
29 the more arbitrary but the more simpler way of administra-  
30 tion, For example, would it be possible to limit the



1 percentage of gross revenue which an exempt organization  
2 might obtain from catering to persons other than members  
3 perhaps? You say that not more than five or ten per cent  
4 of their revenue should come from outside catering?

5 MR. THRASHER: Yes, it might be a little  
6 difficult to get a hold of those figures. I am not sure  
7 whether churches make returns to the income tax department.

8 THE CHAIRMAN: I suspect the ladies' auxiliaries  
9 do not. If your members themselves could come up with  
10 some more simple requirements as to enforcement, it might  
11 be very helpful to the Department. Certainly it is our  
12 job to do our best to see that equity prevails, and I  
13 suspect from what you say that it does not. I am sure  
14 that if there is anything we can do to help we shall be  
15 very glad to do so.

16 We shall continue to hear similar statements  
17 to your own, and perhaps by that time we can make suggest-  
18 ions.

19 MR. THRASHER: I would be glad to make further  
20 suggestions.

21 THE CHAIRMAN: By all means. If you would  
22 write. I don't think you need to appear again.

23 MR. THRASHER: Thank you very much.

24 THE CHAIRMAN: We thank you for appearing  
25 this morning. That is all we have.

26 Mr. Secretary, have you any more business?

27 THE SECRETARY: Yes sir. We have about three  
28 or four more items of business.

29 Present this morning is Mr. Leo McKay, who is  
30 the representative of the Nova Scotia Federation of Labor.



1 Mr. McKay would like to make a statement to the Commis-  
2 sion with your permission Mr. Chairman.

3 THE CHAIRMAN: By all means Mr. McKay

4 MR. MCKAY: Mr. Chairman, I represent the Nova  
5 Scotia Federation of Labor, representing some 40,000 trade  
6 unionists in the Province, chartered by our parent organ-  
7 ization, the Canadian Labor Congress.

8 We had a fear that because of our not present-  
9 ing a formal brief today there may be an assumption that  
10 we are quite content with the system of taxation. However,  
11 this is not the case. We have some very strong opinions  
12 and views on the whole question

13 We have decided, however, to forward these to  
14 our parent organization, the Canadian Labor Congress, to  
15 be included in their presentation to you at a later date.  
16 I understand that they have made a more or less statement  
17 of policy already, and that the formal presentation will  
18 take place within the next few months.

19 We just wanted to point out that, as I said  
20 before, although we have not made any formal presentation,  
21 our views and opinions and feelings will be included in  
22 the brief presented by our parent organization.

23 I would like to thank you, Mr. Chairman, for  
24 this opportunity, where we didn't have any written sub-  
25 mission, of making our interests known to you.

26 THE CHAIRMAN: Well thank you Mr. McKay. I  
27 think your point is well taken. For my own part I am  
28 inclined to believe that people who don't come forward  
29 aren't dissatisfied with the way things are. Perhaps it  
30 is a little strong to say that they are happy, but at



1 least not very dissatisfied. If you find that the  
2 Canadian Labor Congress doesn't pick up all of your points,  
3 and you want to put in something else, by all means get  
4 into touch with us. We are very glad to hear from such  
5 people as yourselves.

6 Thank you very much for your remarks.

7 THE SECRETARY: Mr. Chairman, I have three  
8 briefs which I would like to enter as Exhibits into the  
9 records. The persons aren't able to be here with us, but  
10 they have asked that I enter them on their behalf

11 The first brief was submitted to us on June  
12 the 25th by Mr. Edward G. Burns, of Bathurst, New Bruns-  
13 wick, which I enter into the record as Exhibit No. 112.

14  
15 ---EXHIBIT NO. 112: Brief submitted by Mr. Edward G.  
16 Burns.

17 The next brief was from Group Captain W.L. Orr,  
18 of Rockingham, Nova Scotia. This was received on the  
19 11th of June at our Head Office, and I would like to enter  
20 this into the record as Exhibit No. 113.

21  
22 ---EXHIBIT NO. 113: Brief submitted by Group Captain  
23 W.L. Orr.

24  
25 THE SECRETARY: Next is a brief from Mr. John  
26 G. Grey, of Saint John, New Brunswick, which was received  
27 on the 11th of June, and which is entered into the record  
28 as Exhibit No. 114

29 ---EXHIBIT NO. 114: Brief submitted by Mr. John J. Grey  
30



1 THE SECRETARY: Finally I would like to say,  
2 Mr Chairman, that we had intended to enter a brief from  
3 the Retail Merchants' Association of Canada, Maritime  
4 Division, but unfortunately the briefs have not arrived.  
5 They did come to Halifax. They were recalled for some  
6 corrections, and as of this morning they are not here, so  
7 we will have to enter them in at the first opportunity.  
8 I know the Retail Merchants wished they be entered into  
9 the record here in Halifax.

10 However that is all Mr. Chairman.

11 THE CHAIRMAN: Thank you Mr. Secretary. There  
12 being no further business---

13 THE SECRETARY: No further business sir.

14 THE CHAIRMAN: Well, we have had a very inter-  
15 esting morning indeed, and a very good visit to Halifax.

16 This stands over to next week, in Vancouver.

17 THE SECRETARY: August the 12th in Vancouver.

18  
19 ---adjourned.  
20  
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# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT

Vancouver, B.C.

VOLUME No.:

34

DATE:

August 12, 1963

OFFICIAL REPORTERS  
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TORONTO, ONTARIO

1  
2  
3 ROYAL COMMISSION ON TAXATION

4 Hearing held in Room 305,  
5 Vancouver Public Library,  
6 750 Burrard Street,  
7 Vancouver, British Columbia,  
8 on the 12th day of August,  
9 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S.M. MILNE

15 MR. CHARLES E.S. WALLS

16  
17 LEGAL ADVISER:

18 MR. J.L. STEWART, Q.C.

19  
20 RESEARCH DIRECTOR:

21 PROF. D.G. HARTLE

22  
23 SECRETARY:

24 MR. G.L. BENNETT

25  
26  
27  
28 -----  
29  
30





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TORONTO, ONTARIO

I

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF VANCOUVER, BRITISH COLUMBIA .

August 12, 1963

TOPICAL INDEX

VOLUME No. 34

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a )	<u>INTRODUCTION:</u>	
	Opening remarks of the Chairman	2217
( b )	<u>Submission: Of</u>	
	<u>The Fisheries Association of</u> <u>British Columbia.</u>	2217
4	Business Income Taxation- General Concept of Business Income.	2227 - 2233
5	Business Income Taxation- Incentive Measures	2236 - 2240
7	Business Income Taxation- Losses	2240 - 2243
II	Business Income Taxation- Specific Industries	2218 - 2246
12	Co-operatives, Credit Unions	2233 - 2236
22	Excise Taxes, Excise Duties	2244 - 2246
46	Sales Tax- Federal	2244 - 2246
( c )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2217 - 2218
	Nature of Association, its functions and purpose.	2218
	A reference to the relationship of the representative Companies and the Fishermen, how the operations are conducted and the policies pursued, a general outline of the basic agreements.	2218 - 2227
	A point raised in respect to the suggest- ion and proposal that " Advances to the Fishermen be allowed as a deduction from income" . A discussion of the basis of the recommendations and present methods of treating such advances tax-wise.	2227 - 2233 2246, 2247
	A question and point in respect to co-operatives associated with the fishing industry, the suggested recommendation of repealing two (2) sub-sections of the Income Tax Act; under Section 75 .	2233 - 2236
	A question of Capital Expenditures and the proposal setforth for an incentive allowance under the caption of an Invest- ment Allowance, the principles discussed and the reaction to the points raised.	2236 - 2240



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The Fisheries Association  
of British Columbia

August 12, 1963

Volume No. 34

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( c )	<u>SPECIFIC DISCUSSIONS: ( continued )</u>	
	A reference to removing restrictions on period limits in which Business Losses can be applied, the viewpoints expressed and the arguments advanced in respect to the fishing industry.	2240 - 2243
	A reference to Consumption Taxes, Value-Added Taxes and the aspect of such taxation in other Countries being introduced in Canada. Some reflection and viewpoints expressed on the application of such measures in respect to the Canadian fishing and Canning industry.	2244 - 2246
	Closing remarks of the Chairman.	2246, 2247
( d )	<u>Submission: Of</u>	
	<u>Kings' Way Lamp and Manufacturing ( 1960 ) Limited.</u>	2248
	Opening remarks of the Chairman	2248
46	Sales Tax - Federal	2248 - 2259
( e )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2248, 2249
	A reference to Sales Tax being higher on domestically produced goods than on the similarly imported goods. An exemplification of, also, some problems encountered on differential basis, the effect on Canadian manufacturing and source of Capital Investment.	2249 - 2254 2260 - 2269
	A question of tax pyramiding and levels of application, its effects.	2254 - 2256
	A reference to the suggestion that present manufacturers' tax be placed at retail level, the problems that might ensue between the Provincial and Federal jurisdiction.	2256 - 2258
	A reference to some problems presently encountered in meeting demands of Sales Taxes and Income Tax requirements, the effect on working Capital and the necessity to borrow before recovery from trade - accounts. A few exemplifications of.	2258, 2259
	Closing remarks of the Chairman.	2270



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III

August 12, 1963

Volume No. 34

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( f ) <u>Submission: Of</u>		
	<u>Mr. William H. MacInnes, Vancouver, B.C.</u>	227I
	Opening remarks of the Chairman	227I
35	Personal Income Tax - Exemptions and Allowances.	2275, 2276
46	Sales Tax - Federal	2276 - 2278
49	Tax Administration	227I - 2275
( g ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	227I
	A reference to and presentation of some problems dealing with classification of mortgage discounts for tax purposes, the various court rulings and judgements not impelmented and relative thereto, and the resultant experience in administration of such findings. Some exemplifications and case history recited.	227I - 2275 2278, 2279
	A point of Martial Status upon death of a wife, the allowable exemption when home is retained and a full-time housekeeper is employed. A few problems concerning the Sales Taxes, the application and collection of.	2275 - 2278
	Closing remarks of the Chairman	2279, 2280
( h ) <u>Submission: Of</u>		
	<u>Mr. Alec C. Beasley, Winfield, B.C.</u>	2280
	Opening remarks of the Chairman.	2280
9	Business Income Taxation - Other	2285
2I	Estate Taxes, Gift Taxes	2285
27	Incidence of Taxation and Income Distribution	228I - 2284
33	Personal Income Tax - Capital Gains	2282, 2283
38	Personal Income Tax - Other	2286, 2287
( i ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	2280, 228I
	The Expressed diversified viewpoint of an individual taxpayer in respect to various phases of taxation applicable to Personal, Corporations, Consumption and Estate Taxes. A general discussion of.	2280 - 2288
	Closing remarks of the Chairman	2288



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Vancouver, British Columbia.

August 12, 1963

Volume No. 34

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
II5	Brief of The Fisheries Association of British Columbia.	2217
II6	Brief of The Kings' Way Lamp and Manufacturing ( 1960 ) Limited.	2248
II7	Brief of Mr. William H. MacInnes, Vancouver, B.C.	2271
II8	Brief of Mr. Alec C. Beasley, Winfield, B.C.	2280
II9	Brief of Mr. A. F. Henshaw, Trail, B.C.	2289
I20	Brief of Mr. E. Langemann, Burnaby, B.C.	2289
I21	Brief of Dr. Edwin M. Meade.	2289
I22	Brief of Retail Merchants' Association of Canada, Maritimes Division.	2289, 2290



2 1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, it is now 9.30;  
3 shall we begin?

4 THE SECRETARY: I think we are all here. Mr.  
5 Chairman, the first brief this morning is being presented  
6 by the Fisheries Association of British Columbia. Mr. F.L.  
7 Jones is present. Mr. Jones is Chairman of their Tax  
8 Committee. He will introduce two of his colleagues who  
9 are with him and will speak to the brief. I would like to  
10 enter this into the record as Exhibit No. 115.

11  
12 --- EXHIBIT NO. 115: Brief of the Fisheries Association  
13 of British Columbia.

14  
15 SUBMISSION OF THE FISHERIES ASSOCIATION  
16 OF BRITISH COLUMBIA

17 Appearances: Mr. G.M. Ferguson  
18 Mr. F.L. Jones  
19 Mr. T.K. Milne

20 THE CHAIRMAN: Thank you, Mr. Secretary. Mr.  
21 Jones, we are very glad to see you today. Before asking  
22 you to speak I would like to say the Commission is delighted  
23 to be in this beautiful city of Vancouver, particularly  
24 when the weather is nice. You are appearing as the  
25 Fisheries Association of British Columbia, and we would be  
26 very grateful, Mr. Jones, if you would introduce your  
27 colleagues to us, and I will introduce you to this Commis-  
28 sion, whose names you see before us, and would you tell us  
29 a little bit about your Association before we proceed to  
30 examine your brief?

MR. JONES: Yes, Mr. Chairman. The gentleman on



3 1 my right is Mr. G.M. Ferguson, Vice-President of B.C.  
2 Packers Limited, and on my left, Mr. T.K. Milne, Comptroller  
3 of Canadian Fishing Company Limited. I have been named as  
4 President of this Committee. My full-time occupation is  
5 Comptroller of Nelson Brothers Fisheries Limited.

6 The Fisheries Association of British Columbia is  
7 a voluntary organization of some eleven canners canning  
8 salmon in British Columbia. They account for, as we say  
9 in our brief, approximately 85 to 95 percent of the total  
10 canned salmon in British Columbia and 80-90% of the herring.  
11 Those are the two main fish with which the fishery  
12 companies are concerned. We were requested to submit a  
13 brief and you have before you the results of our delibera-  
14 tions. We have little to add to the brief, but we will be  
15 pleased to try and answer any questions.

16 THE CHAIRMAN: Thank you, Mr. Jones. I am very  
17 ignorant of your industry. While I have read your submis-  
18 sion I realize that the eleven members you speak of are  
19 engaged in both fishing and processing, I would like to  
20 know what is the relationship between the companies and  
21 the fishermen. You talk about financing the fishermen,  
22 so, therefore, they are not employees. They are selling  
23 you fish. What kind of contract exists between you and  
24 these particular fishermen?

25 MR. JONES: Those could vary, sir, according to  
26 the company concerned and the fishermen concerned. I will  
27 speak from my own experience. My two colleagues may care  
28 to comment. There are various types of fishing vessels.  
29 This could be very detailed and lengthy. Starting at the  
30 bottom in size, the one-man gild netter.



THE CHAIRMAN: The what?

MR. JONES: The gill netter, 30 to 40 feet in length, and individual entrepreneurs, as you say. The financing agreement - the companies enter into these agreements, conditional sales agreements on his boat, the acquisition of the boat, and he agrees to pay the company back the cost of the boat out of the proceeds of fishing over so many years. In return it is generally a written or unwritten agreement that he will deliver his catch to the company that is financing him or he will give them first refusal. In addition to the boats on which we have these conditional sales agreements we also, of course, finance all the purchases of nets and gear which can be quite substantial. In these one-man boats it is often \$1,500 to \$2,000 a year on nets and gear.

As I think we mentioned in our brief, in years of poor fishing you finance them for everything; for their day-to-day needs in addition to the capital financing which is covered by the conditional sales agreement.

THE CHAIRMAN: It may include financing to support their families and their livelihoods?

MR. JONES: Correct.

THE CHAIRMAN: That covers the one-man gill net boats. Where do you go from there?

MR. JONES: That would cover the bulk in number. There are also the one-man trolling vessels. My company doesn't have a great deal to do with these. Mr. Ferguson or Mr. Milne could possibly speak to that. I think the arrangement is much along the same lines.

MR. FERGUSON: The arrangements would be



5 1 identically the same; finance the troller, and usually take  
2 conditional sales agreements against the boat. We also  
3 finance him for oil and his fishing gear. Our means of  
4 recovery there is to try and get them to deliver their  
5 fish to us on his books so a percentage can be collected  
6 against his account. This class of fishermen fish  
7 considerably up and down the coast and unless we have a  
8 fish camp in the area they generally sell for cash to  
9 someone else so the collection of these is more difficult  
10 than the gild netter accounts.

11 THE CHAIRMAN: You can't actually control the  
12 sale of their catch?

13 MR. FERGUSON: We can't control nor can we  
14 control their drifting up and down the coast, depending  
15 on where the fish are.

16 THE CHAIRMAN: I observe you have a fisherman  
17 strike here, but that strike isn't of employees against  
18 employers.

19 MR. FERGUSON: No.

20 THE CHAIRMAN: Am I correct?

21 MR. FERGUSON: That is right.

22 THE CHAIRMAN: This is an argument between your-  
23 selves and the entrepreneurs who catch the fish as to the  
24 price you are going to pay for those fish?

25 MR. JONES: That is correct.

26 THE CHAIRMAN: Now, Mr. Jones, supposing we take  
27 the point you raised ---

28 MR. JONES: Excuse me, sir, there is one other  
29 class of financing. There is one third class of financing.  
30 After the gilders and trollers we come to the bigger seine



6 1 boats which have seven or eight-man crews. We are  
2 talking about boats costing \$50,000 and up. These are  
3 financed by the companies. There are not so many of these  
4 as there are of the one-man boats, but there is a consi-  
5 derable number in the total industry. These being large  
6 boats over 10 tons one can register them. They are  
7 financed by the companies to the boatowner with the secu-  
8 rity being the marine mortgage registered against the  
9 vessel. There again, the boatowner enters into a charter  
10 agreement with the financing company whereby the company  
11 agrees to pay so much per day charter for a fishing vessel  
12 and turn over the catch to the company.

13 The method of allocation of the catch is highly  
14 complicated, in that you have a boatowner - the company  
15 chartering a boat and maybe another person who owns the  
16 net, all of whom get a share of the catch. Basically the  
17 financing is done by marine mortgage.

18 THE CHAIRMAN: The financing is done in very  
19 much the same way as the other boats.

20 MR. JONES: But in this case you have a  
21 registered mortgage against the vessel, a registered  
22 vessel.

23 THE CHAIRMAN: Instead of hire purchase and  
24 conditional sales agreement as you refer to it, this is a  
25 marine mortgage?

26 MR. JONES: Yes.

27 THE CHAIRMAN: It is the same?

28 MR. JONES: The individual crew members are not  
29 financed.

30 THE CHAIRMAN: These seine boats would come under



7 1 the definition of fishing troller, which is appended to  
2 your submission as being eligible under certain circum-  
3 stances for subsidy.

4 MR. JONES: Yes, sir. That is one point I wish  
5 to make. I think you are leading up to it. Since submit-  
6 ting the brief I checked with the local Department of  
7 Fisheries, Federal Government Department of Fisheries,  
8 and their figures for last year, 1962, show 9,143.

9 THE CHAIRMAN: What was the figure?

10 MR. JONES: 9,143 fishing units in the B.C.  
11 fishing industry. This is everything from whale, herring,  
12 salmon, halibut, and only 13 were over 100 tons registered.  
13 There would be only 13 that would qualify for the subsidy  
14 as mentioned in our brief. Of these 13, five were whalers,  
15 and excluding the whalers there were only nine boats in  
16 the B.C. fishing industry which would be eligible to be  
17 under the terms of the Canadian Maritime Commission Act.

18 COMMISSIONER GRANT: I would like to ask Mr.  
19 Jones one or two questions. Mr. Jones, the largest number  
20 of fishing craft that would be in use in the industry in  
21 British Columbia would be in the gild net operations?

22 MR. JONES: Yes, sir.

23 COMMISSIONER GRANT: About what would be the  
24 average cost of one of those boats?

25 MR. JONES: My colleague say \$5,000 to \$15,000.

26 COMMISSIONER GRANT: How far off shore is their  
27 fishing limits, their fishing grounds?

28 MR. JONES: They are all coastal. They can't  
29 fish beyond what the Department calls the surf grounds;  
that is three miles off Vancouver Island.



8 1 COMMISSIONER GRANT: Does that also apply to the  
2 one-man trawlers?

3 MR. FERGUSON: It is troller. They will fish  
4 off the west coast of Vancouver beyond the three-mile  
5 limit. Some of them fish in the inside waters.

6 COMMISSIONER GRANT: That can be termed as shore  
7 fishing?

8 MR. FERGUSON: All of them, yes.

9 COMMISSIONER GRANT: Then your larger units, of  
10 which you only have 13, how far out?

11 MR. JONES: The larger units, the 13 vessels  
12 over 100 tons, in the B.C. fishing industry last year.

13 COMMISSIONER GRANT: Where would they fish?

14 MR. FERGUSON: Five were whalers fishing out at  
15 the west coast of Vancouver Island, Queen Charlotte  
16 Island - the rest would mostly be in the inside waters.

17 MR. JONES: I don't know if I gave a misconcep-  
18 tion of the 13 in connection with ---

19 COMMISSIONER GRANT: The subsidy.

20 MR. JONES: There are numerous large boats,  
21 halibut boats, that go out in the Bering Sea and these  
22 boats, salmon and herring - also halibut - they are not  
23 over 100 tons. They are big enough to go across the  
24 Gulf of Alaska into the Bering Sea.

25 COMMISSIONER GRANT: Would they qualify for the  
26 subsidy?

27 MR. JONES: No, because they are not over 100  
28 tons - very few; maybe eight or nine.

29 COMMISSIONER GRANT: Yes, thank you.

30 THE CHAIRMAN: Before we proceed with the



1 submission, are there any more questions as to that portion?

2 COMMISSIONER PERRY: I am wondering if the  
3 witness could say roughly the proportion of the total  
4 catch which would come from these types of fishing.

5 MR. JONES: I wouldn't want to venture a guess,  
6 Mr. Perry. It fluctuates greatly from year to year.  
7 depending on the salmon. The figures for last year would  
8 probably show a breakdown of seine - seine boats probably  
9 always catch more than gill netters in total. We had a  
10 lot of pink fish which is mainly their fish.

11 COMMISSIONER PERRY: Perhaps to make the question  
12 a little more general, is the trend in the industry towards  
13 catching by using the larger boats or is the small man  
14 still important?

15 MR. JONES: The small man is still very important.  
16 There are certain areas in which only the small man can  
17 fish, certain areas in which the larger boats can fish.  
18 The whole industry is very closely regulated as to type of  
19 pier, time and place of fishing, in the interests of  
20 conservation and proper management of the fisheries.

21 COMMISSIONER WALLS: Am I right that the predomi-  
22 nance of the fish caught on the Pacific Coast is salmon  
23 and halibut with about somewhere between 50 and 60 percent  
24 of your total fish catch being salmon and about 20-odd per-  
25 cent halibut? In other words, your varieties of fish are  
26 less, perhaps, than the varieties caught in the Atlantic.

27 MR. JONES: Yes, sir. Member companies of this  
28 Association which I represent are primarily concerned with  
29 salmon and herring, not halibut.

30 COMMISSIONER WALLS: Dealing with the employment



101 of the fishermen, do you charge interest in financing  
2 these fishermen? Do you charge interest on the loans?

3 MR. JONES: Yes, sir.

3 4 COMMISSIONER WALLS: Therefore it is really a  
5 revenue producing activity. My next question, then,  
6 would be: do you not encourage them to be indebted to you  
7 so you are able to hold them to your particular packing  
8 plant?

9 MR. JONES: Encourage is, I think, too strong a  
10 word. As an accountant, no. If you talked to some of my  
11 production managers I am not sure what your answer would  
12 be.

13 COMMISSIONER MILNE: Mr. Jones, I noticed this  
14 morning in the paper, and it seems to me this applies  
15 right now, there is too much expensive gear. Would you  
16 like to comment on that?

17 MR. JONES: As an individual, and I think Mr.  
18 Ferguson - we all agree there is too much gear. What one  
19 must realize, I think, in this context, is that the ocean  
20 fisheries are natural resources belonging to everybody,  
21 every Canadian; every world citizen, for that matter  
22 if you wish to go up the street, pay a dollar, and go out  
23 fishing. There are so many gamblers, so many people that  
24 think they can go out fishing and make it pay.

25 We, the companies, wish to make sure that we get  
26 our share of the available fish. While we don't encourage,  
27 as Mr. Walls says, these fellows to get in debt, a fisher-  
28 man comes along and wants to go fishing we are reluctant  
29 to turn him away. The problem of too much gear is a fact.  
30 I would say many people like to try their hand at fishing.



11 1 COMMISSIONER GRANT: You would like a constant  
2 supply?

3 MR. JONES: Right. This problem of too much  
4 gear is a big problem. This Government looked into it  
5 and published a lengthy report. No action was taken  
6 because there is really no equitable action that could  
7 be taken so long as it is a natural right to go fishing  
8 unless we want to adopt the Russian system.

9 COMMISSIONER GRANT: Are there many, what the  
10 industry might call, moonlighters? Are there many people,  
11 that go out fishing and sell their catch, whose principal  
12 occupation is not fishing?

13 MR. JONES: There are some, sir, yes.

14 COMMISSIONER GRANT: Is that a factor in the  
15 supply?

16 MR. JONES: I would say no.

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r/dpw 1 In a big area like 1958 when we had the salmon in the  
2 Fraser River, it was a hot year, and the loggers found  
3 themselves a little boat, found themselves a little net,  
4 and off they went and caught fish. It is not really a  
5 factor every year.

6 COMMISSIONER GRANT: The small licence fee is  
7 not detrimental to the industry?

8 MR. JONES: No.

9 THE CHAIRMAN: I am still not very clear as to  
10 just how the fisherman disposes of his catch. You told  
11 me that he gives you a right of first refusal, or some  
12 kind of undertaking to dispose of his catch to the concern  
13 which finances him. Do you, generally speaking, have the  
14 same kind of contracts for financing with the fishermen?  
15 Are they all exactly the same?

16 MR. FERGUSON: I would say yes.

17 MR. JONES: Yes.

18 THE CHAIRMAN: What do they provide in this  
19 respect? Do they contain a clause that the fisherman  
20 agrees to give the other signatory to the contract the  
21 right of first refusal of his catch?

22 MR. FERGUSON: Yes.

23 THE CHAIRMAN: That is written in just as plainly  
24 as that?

25 MR. FERGUSON: Yes.

26 THE CHAIRMAN: Are there any further questions  
27 before we get to the main suggestions? The first sugges-  
28 tion that you put forward is that the advances to fisher-  
29 men should be allowed as deductions from income. I take  
30 it that you intend, when the advances are recovered, that



2 1 they be brought into income. In fact, you say that.

2 MR. JONES: Correct.

3 THE CHAIRMAN: Would that be your method of  
4 determining income? It is not now followed, I presume,  
5 by yourself, apart from income tax. You don't, for your  
6 own purposes, write off these advances against income?

7 MR. JONES: The company that I represent does,  
8 yes.

9 THE CHAIRMAN: You do write off the total  
10 advance?

11 MR. JONES: We did until a few years ago.

12 THE CHAIRMAN: But you don't now?

13 MR. JONES: Not at present.

14 THE CHAIRMAN: Why did you change; because you  
15 believed it was the right way to do it, I suppose?

16 MR. JONES: Yes, I believe the old way is the  
17 right way. Can I say circumstances prevailed, but we  
18 believe that that should be the way it should be looked  
19 at from the taxation point of view.

20 THE CHAIRMAN: I take it that what you are advo-  
21 cating is not the general practice, despite what you do  
22 yourself, or what you did yourself? Most companies carry  
23 these items as advances?

24 MR. JONES: Less a substantial reserve. I can  
25 only speak for my own company. This is in my own case.

26 THE CHAIRMAN: There is no uniform practice?

27 MR. JONES: Not that I know of. There is not  
28 tax-wise, but I can only speak for my own company. I  
29 cannot speak for my colleagues beside me.

30 THE CHAIRMAN: The reason I am asking is if you



3 1 think this is the best method of determining income, I  
2 would assume that would be the way the industry would  
3 keep their books, because you could hardly come forward  
4 and say that the Department should determine income in a  
5 way which is totally different from yours.

6 MR. JONES: This is a fine argument, but when  
7 the shoe is on the other foot, the Department couldn't  
8 care less.

9 THE CHAIRMAN: I don't follow you.

10 MR. JONES: You are asking us now to keep our  
11 books and the Tax Department say that is the proper way to  
12 do it.

13 THE CHAIRMAN: No, I am not at all. I am simply  
14 saying if you suggest this is the right way to determine  
15 income, then presumably you would use the right way so as  
16 to determine your own income. I want you to support your  
17 own argument.

18 MR. JONES: Part of our argument is based on,  
19 as we mentioned, what the other primary industries are  
20 allowed, and, of course, they are not dealing in advances  
21 to a third party. Their expenses are laid out, just as  
22 ours are, in acquiring the raw product which they manufac-  
23 ture; there is no third party involved, but in other  
24 primary industries, agriculture on the east coast, to a  
25 certain extent, there is a sort of financing which is done  
26 by means of subsidy, as we say.

27 We don't get any subsidy in any way, shape or  
28 form, and yet we do this financing, and we are speaking of  
29 millions and millions of dollars, not in tens or thousands.

30 MR. FERGUSON: There is not other means, that we



4 1 know of, at the present time, of financing these fishermen.  
2 No financial institution will take them on. They are a  
3 poor risk to start with. No government institution will  
4 finance them, the same as they do with the farmers or  
5 other people. These advances are made for one purpose and  
6 one purpose only, and that is to catch fish.

7 THE CHAIRMAN: I would think that is the proper  
8 way to proceed. My question is: what is the right way of  
9 arriving at the income of your business? That is the  
10 question I am asking. You are not making it very clear to  
11 me.

12 MR. FERGUSON: The right way to arrive at the  
13 income is to write off the advances. The correct way to  
14 arrive at the advances would be to write them off.

15 THE CHAIRMAN: The income.

16 MR. FERGUSON: The income.

17 THE CHAIRMAN: Would be to write off the advances.

18 MR. FERGUSON: Would be to write off the advances.  
19 because they are part of acquiring the fish. The Depart-  
20 ment has not seen it that way over the years. Other  
21 companies have in the past written their advances off in  
22 full and the Department have disallowed it.

23 THE CHAIRMAN: Do they all write them off?

24 MR. FERGUSON: No, not all companies have, but  
25 some companies have.

26 MR. JONES: At the end of the fiscal year.

27 MR. MILNE: I would suggest the write-off in our  
28 books might be in excess of the allowance that we take for  
29 tax purposes.

30 COMMISSIONER GRANT: The industry, in its wisdom,



1 through its experience over the years, has decided that it  
2 is better to depend upon this type of financing, that is to  
3 have the boat registered in the name of the fisherman and  
4 the company put up the money and look to the fisherman to  
5 repay that loan out of his catch, than it would be for the  
6 company to own the boats?

7 MR. FERGUSON: The costs are less in the long  
8 run.

9 COMMISSIONER GRANT: If the company owned the  
10 boats, of course, then it would take its depreciation.

11 THE CHAIRMAN: The proposal, as I understand it,  
12 Mr. Perry, is that the advances as they appear at the end  
13 of the year on the balance sheet of these people shall be  
14 completely charged against income and as and when the  
15 advances are recovered, they will be brought back into  
16 income in the long run would be collected the same amount  
17 as they are now, but they wouldn't be collected quite as  
18 fast.

19 COMMISSIONER PERRY: Is this what your proposal  
20 does mean, Mr. Jones? I am reading paragraph 2, at the  
21 bottom of page 2, and I must say that is not the way I  
22 read it myself. It seems to me you are looking for a net  
23 position vis-a-vis the fisherman.

24 MR. JONES: I think if we can get away with what  
25 the Chairman suggested, we would be very happy.

26 COMMISSIONER PERRY: I have no doubt, but I  
27 don't think that is what you are proposing.

28 MR. JONES: More power if we could. If from now  
29 on, if we could come to some agreement with the Revenue  
30 Department as regarding this total right now, we doubt



6 1 very much they would say, "Okay, you can write off that  
2 \$15 million." But, if from now on the amount by which  
3 that increased could be allowed as a charge against income,  
4 and conversely, if it decreased, could be brought in as  
5 credit to income - in a bad year we suffer badly. We  
6 advance the fishermen in a bad income year. That is the  
7 year that our accounts go up astronomically and we have  
8 to carry it and are not allowed to write, apart from a  
9 small reserve, it off.

10 In a bad year, when the accounts go up astrono-  
11 mically, if we could be allowed to charge that off as cost.

12 THE CHAIRMAN: What is the experience of the  
13 collection over the years? Would the loss have been  
14 substantial?

15 MR. FERGUSON: Yes.

16 MR. JONES: Yes.

17 THE CHAIRMAN: Do you have any percentages or  
18 any support for it?

19 MR. JONES: No, sir. This, of course, is a  
20 matter for each individual company.

21 COMMISSIONER WALLS: Don't you accentuate your  
22 profit in the good years? Say your loaning is very heavy  
23 in the bad years, you write it off in the bad years, and  
24 then you take it back in as income when it is repaid in the  
25 good years. This is also a good year for your fishing,  
26 and a good year for repayment, so you are actually accen-  
27 tuating the income position of good years?

28 MR. JONES: Yes.

29 COMMISSIONER WALLS: Is there anybody, then, in  
30 the fishing business who is not in the processing who can



7 1 take advantage of the five-year averaging?

2 MR. FERGUSON: Yes, sir.

3 MR. JONES: I think the five-year averaging is  
4 taken advantage of by individual fishermen.

5 MR. FERGUSON: I think there were one or two  
6 companies - they are out of existence now, just in fishing -  
7 and they took advantage of it, but I think they are now  
8 out of existence.

9 THE CHAIRMAN: The reason that you don't incor-  
10 porate fishing activities, apart from the processing acti-  
11 vities, is because it is, I presume, more important to bring  
12 together your profit and loss as between the two than it is  
13 to secure averaging benefits allowed to fishermen. Anything  
14 further on number one? I think we understand your position  
15 all right with regard to this and we will continue to  
16 look at it.

17 The next item you put before us relates to  
18 co-operatives, and you come out with very definite recommen-  
19 dations; to repeal two sub-sections of the Act.

20 I suppose you have considered what the effect of  
21 what is called pricing-out would be on your own business;  
22 the reduction in their prices, so that they in fact show no  
23 profit. Would you say it is not practical for co-operatives  
24 to do that? Have you considered that?

25 MR. JONES: No, sir.

26 COMMISSIONER WALLS: I think there must be some  
27 misunderstanding in your recommendation following that  
28 where you state, at (4) -you recommend that Section 75(1),  
29 which provides for the deduction, in computing taxable  
30 income, of patronage dividends; being as these are



8 1 producer co-operatives, then the fisherman has to show the  
2 patronage refund that he receives as income, so that if you  
3 were to do what you suggest, you are then asking for  
4 double taxation, aren't you?

5           You see, in the consumer co-operative, the patron-  
6 age refund is non-taxable, but in a producer co-operative,  
7 whether fisherman or farmer, the refund is taxable in the  
8 hands of the recipient. Now, if he is going to be taxed  
9 for it, then what you are asking for here is he should be  
10 paying a double tax for it.

11           MR. JONES: Just the same as a shareholder of  
12 B. C. Packers Limited.

13           COMMISSIONER WALLS: Except that he gets 20% tax  
14 refund.

15           MR. JONES: I wouldn't object to that.

16           COMMISSIONER WALLS: You don't say anything about  
17 that in here.

18           COMMISSIONER PERRY: To your knowledge, Mr. Jones,  
19 does the co-operative have about the same general relation  
20 with these fishermen as a private company? That is, the  
21 same kind of agreement, plus the patronage dividend  
22 feature? It isn't fair to expect you to know this, but I  
23 just wondered whether you did.

24           MR. JONES: That agreement is evidently stronger  
25 than ours with the fishermen.

26           COMMISSIONER PERRY: As to the undertaking of the  
27 fishermen to the co-operative?

28           MR. JONES: Yes.

29           MR. FERGUSON: The financing is done mostly  
30 through the credit union and they must deliver to the



co-operative, once they are members of the co-operative.

They can't get out of it.

COMMISSIONER GRANT: I think I would like to know, if you have the knowledge available to you, a little bit on how the Prince Rupert Co-operative was formed and when? How many members would it have?

MR. JONES: I am a newcomer in Canada. It is before my time. Mr. Ferguson?

MR. FERGUSON: I am not just sure of the date when it was formed but it was quite a number of years ago. I would say it has been in existence about 15.

THE CHAIRMAN: Would it deal with a substantial share of the catch?

MR. FERGUSON: It represents a substantial share of the halibut catch but not altogether of the salmon catch. As yet, it is only restricted to the northern area, pretty well, at the moment.

THE CHAIRMAN: Substantial would be what; 15 to 25 percent?

MR. FERGUSON: Of the halibut?

THE CHAIRMAN: Yes.

COMMISSIONER WALLS: I think it is 10% of the total.

MR. FERGUSON: I would think about 20, maybe 20% of the halibut catch.

COMMISSIONER GRANT: On the east coast the co-operative movement in the fishing industry, I think, got its beginning because of the fact that the companies didn't provide too steady a market for the catch in certain localities, and the marketing end of it fell to



10 1 to the fisherman himself, unless he was fortunate enough to  
2 be able to be in an area where the company boat would call  
3 to take his catch and my limited knowledge of the movement  
4 would lead me to believe that they got together in an  
5 effort to have a more orderly system of marketing.

6 Would that apply to the Prince Rupert Co-oper-  
7 tive?

8 MR. JONES: No, sir.

9 MR. FERGUONN: At no time has that applied here.

10 COMMISSIONER PERRY: Is this the only co-opera-  
11 tive in the fishing industry? It's the only one you mention.  
12 I just wondered if it is the only one.

13 MR. FERGUSON: There has been the odd fishing  
14 co-operative on the west coast of Vancouver Island. This  
15 was for trollers. This would be the only one that I know  
16 of that is in existence here.

17 THE CHAIRMAN: The next matter that you bring  
18 forth relates to capital expenditure, page 4, running over  
19 to page 5, and you recommend an investment allowance of,  
20 say, 30% of the capital cost, allowed as a deduction from  
21 taxable income in the year of the expenditure, in addition  
22 to normal capital cost allowances. It seems to me the  
23 investment allowances have somewhat the character of a  
24 subsidy in that they permit a deduction from income  
25 of more than 100% of cost. If they did that, you are able  
26 to reduce your taxes by more than what is a fair deduction  
27 for determination of income and, are therefore, very  
28 distinctly an incentive.

29 We, of course, are wondering what the effect of  
30 such an incentive might be. You apparently believe that



11 1 your fleets require modernization. Is that why you state  
2 it is desirable?

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MR. JONES: Partly, sir, and plus the fact and

2 boats that you have invested in wouldn't necessarily belong  
3 to the companies of the Association. We are talking of the  
4 industry. The fishermen own the majority of the boats.

5 THE CHAIRMAN: You say there is an excess of  
6 equipment at the present time. I didn't know whether  
7 that meant an excess in the number of boats. I suppose,  
8 perhaps, it does. Doesn't this tend to increase the  
9 number of boats?

10 MR. JONES: Not necessarily; it could. It  
11 could lead to better equipment, replacing of the poorer,  
12 older, vessels at present by more modern vessels.

13 THE CHAIRMAN: Do you think there is a greater  
14 need for incentives for your industry than for re-equip-  
15 ment of Canadian industry in general throughout the  
16 nation?

17 MR. JONES: No.

18 THE CHAIRMAN: You think this ought to go along  
19 with everything else?

20 MR. JONES: Correct. We thought in writing  
21 this brief - the request was in respect to the fishing  
22 industry and we have carefully avoided the whole gamut of  
23 taxation.

24 THE CHAIRMAN: That is fair.

25 COMMISSIONER PERRY: May I ask again, who would  
26 be the registered owner of the largest type of boat, the  
27 seine boat? I see in my notes that these are financed  
28 under marine mortgage and that the operator undertakes to  
29 fish for a certain number of days for the company. Would  
30 he be the one who would be able to claim the depreciation?



2 1 MR. JONES: Some of them are owned by the

3 companies. I wouldn't like to say it is 50-50. Some owned  
4 by individual fishermen.

5 COMMISSIONER PERRY: I am just wondering if the  
6 situation where the companies own the boats had been  
7 touched on previously; what is the arrangement there?  
8 Is the crew employed?

9 MR. JONES: No. We charter the boat or we get  
10 a skipper to take a boat and he has a union crew and it  
11 is the same as if it was a private-owned boat.

12 THE CHAIRMAN: A charter fee paid from the  
13 fisherman to the company for the use of the boat?

14 MR. JONES: No, the agreement on these large  
15 boats - there are seven-man crews, sometimes. It is very  
16 complicated. If the gross catch was \$22,000-worth the  
17 crew gets seven-elevenths - I use \$22,000; you could take  
18 anything, and the other four-elevenths is split between  
19 the boatowner and the net owner and a special commission  
20 to the captain, who might not be either the boatowner or  
21 net owner. This can get very involved. Basically the  
22 boatowner, whether the company or the individual fisherman,  
23 share four-elevenths of the total catch.

24 COMMISSIONER WALLS: Am I not right that the  
25 industry is highly competitive with the fishing industry  
26 in the United States, or is it?

27 MR. JONES: Highly competitive with the fishing  
28 industry in the United States in our fishing operations  
29 or marketing operations?

30 COMMISSIONER WALLS: Marketing operations.

MR. JONES: In the fresh fish field my company



3 1 doesn't deal.

2 COMMISSIONER WALLS: Maybe I had better give you  
3 the reason I am asking this. I was wondering if you felt  
4 that competitively they had an advantage because, I believe,  
5 the United States now provides an investment allowance  
6 which is applied against the actual tax payments,

7 MR. FERGUSON: I think that is right, yes, they  
8 do.

9 COMMISSIONER PERRY: That is about the British  
10 allowance of 30%?

11 MR. JONES: Yes, sir. Mr. Carter, I would like  
12 to, in defence of that bit about Canadian - we did  
13 finalize our paragraph by saying "should provide an incentive  
14 to Canadian industry," not the fishing industry.

15 THE CHAIRMAN: I am sorry, I didn't realize it  
16 extended beyond fishing by those words. Thank you.  
17 Moving on to business losses, you suggest that instead of  
18 being carried forward for five years only that the restric-  
19 tion be removed. This is not the first time we have heard  
20 this suggestion. I really don't know what is against it-  
21 one thing I do know which would work against it might be  
22 the fact there is a great tendency to trade in these business  
23 losses, and certainly the trading would increase if they  
24 didn't die out in five years. There is no doubt about it.  
25 That is perhaps not enough reason for not granting it.  
26 Some countries do, I believe.

27 MR. JONES: Yes.

28 THE CHAIRMAN: I was going to just enquire if  
29 you are aware of any instances where people have failed  
30 to recover their losses because of the five-year

1 limit in your industry.

MR. JONES: I don't know. I doubt it. I think if you came back next year after the year we have had I might possibly be able to answer that in the affirmative.

THE CHAIRMAN: You think you might be able to answer in the affirmative because of the strike this year?

MR. JONES: Yes.

COMMISSIONER PERRY: I am just wondering if the witness had thought at all of the alternative of a more extensive carry-back of losses. It is argued by some people there is a much greater advantage in a loss year, when obviously you are in a bad state, to be able to carry that back to a previous year in which you have paid taxes and obtain a refund of taxes in that year rather than in a prosperous year when you have a profit to be able to bring forward a loss of a previous year, which is a nice thing to be able to do, but isn't nearly as important, it is argued, as being able to have cash in a poor year. Have you thought of that at all or is this just that you think the five-year limit is wrong?

MR. JONES: I think it is like Alice in Wonderland. I never considered it. I would go along with you one hundred percent on that.

COMMISSIONER PERRY: We are trying to keep open minds on all these things.

MR. FERGUSON: The only difficulty that may entail is new companies starting out, particularly somebody in a primary industry, where the first two or three years of operation may be loss years and you wouldn't have the privilege of carrying back.



5 1 COMMISSIONER PERRY: For a continuing company  
2 there does seem to be some advantage.

3 MR. FERGUSON: For a continuing company.

4 MR. JONES: We could see no reason for this  
5 five-year limitation.

6 THE CHAIRMAN: I have given you one reason for  
7 it. If there is validity to that what would be a reasonable  
8 period for a limit rather than five years; would it be six  
9 or seven? I suppose seven would take care of most of your  
10 troubles, wouldn't it?

11 MR. JONES: Yes.

12 COMMISSIONER PERRY: I think the administration  
13 would begin to rebel at one point or another if, in 1980,  
14 they had a loss for 1954 brought forward when all the  
15 records were destroyed.

16 MR. JONES: If the company was still solvent.

17 COMMISSIONER WALLS: I notice you emphasize this  
18 fact of loss, mostly based on a four-year cycle of sockeye.  
19 Looking over the figures from 1951 to 1961 you had sock-  
20 eye years in 1954 and 1958, but generally speaking, in all  
21 of the other years, the value of the landings was reasonably  
22 even. Wouldn't you adjudge or set up your business to take  
23 car of the normal years rather than base it on every four  
24 years of sockeye? Why necessarily would - the sockeye  
25 cycle mean you are facing a loss in all the other years when,  
26 looking at this, I would say the average value of haul is  
27 about 34 million every year.

28 MR. FERGUSON: I would think one answer may be  
29 that the sockeye is far more readily saleable on a world  
30 market. You have the British market and the Canadian



6 1 market and therefore your carrying costs are considerably  
2 lower on sockeye. With the pink we had last year, while  
3 their dollar value would be up, we will be carrying some  
4 of that for two or three years with insurance costs,  
5 interest and storage. Your profit margin on pinks wouldn't  
6 be necessarily the profit on a saleable product like sock-  
7 eye.

8 COMMISSIONER WALLS: You can't get your business  
9 on a profitable basis on other types of salmon other than  
10 sockeye?

11 MR. FERGUSON: That is one of the unfortunate  
12 things. British people are not used to eating pink salmon  
13 and you have to work a market to sell it. As time goes  
14 along, if you are sure the pinks will give you a constant  
15 volume - we had a terrific volume last year. Unless you  
16 can make the service constant it is difficult to work up a  
17 market.

18 MR. JONES: You realize this agreement with  
19 the fisherman - we undertake to buy all the fish that he  
20 delivers at a minimum price, whether we want it or not,  
21 right now we have a year's pack of pinks.

22 THE CHAIRMAN: Anything further?

23 COMMISSIONER GRANT: Just before leaving, it  
24 was running through my mind in your discussion this  
25 morning that your problems in the fishing industry are in  
26 the fishing end of it rather than in the processing or mark-  
27 eting end. In the fishing end you have problems and your  
28 principal objection to taxation as it is now applied is that  
29 you are not allowed to anticipate your loss to the extent  
30 that you think you should by use of ordinary - write-offs  
and depreciations.



7 1 If you owned your equipment you would take off depreciation  
2 which would give you a certain depreciation reserve but  
3 because of the nature of business you can't set that up  
4 and therefore you are looking for other forms of relief  
5 that might be available to you. I just wanted to satisfy  
6 myself your problems are in the fishing end rather than in  
7 the processing or marketing.

8 MR. FERGUSON: I would think it is a compounded  
9 factor in the fishing end.

10 COMMISSIONER WALLS: Mr. Perry says he imagines  
11 it is more in the banking end than anything else.

12  
13 --- (OFF RECORD DISCUSSION)

14  
15 THE CHAIRMAN: Moving on to consumption taxes,  
16 I think you rather surprised us; you object to the possibi-  
17 lity of value-added taxes believing it would increase the  
18 cost of your product and damage it in the world market.  
19 One thing that has been said about the French form of  
20 taxation is that it has weighted tax on to consumption rather  
21 than income tax and because consumption taxes are omitted  
22 in the case of exports that their exports bear less taxa-  
23 tion than do those leaving this country.

24 I would have assumed that if we followed the  
25 same pattern of reducing our income tax and increasing  
26 consumption taxes, and by the use of some such tax as  
27 value-added tax gave up all taxation on exports, that we  
28 would be in a more favourable export competitive position;  
29 is that not so?

30 MR. JONES: If we gave up all taxes on exports.



1 THE CHAIRMAN: It is not usual to charge consump-  
2 tion taxes on exports under any system.

3 COMMISSIONER WALLS: Maybe I might just ask one  
4 other question dealing with that. Would you object to  
5 consumption tax if all foodstuffs, including your canned  
6 foodstuffs, were exempt? Most foodstuffs today are exempt  
7 from sales tax irrespective of whether value-added or  
8 manufactured sales tax or retail sales tax - if your  
9 product is exempt would you have the same objection?

10 MR. FERGUSON: No, I wouldn't.

11 MR. JONES: The only value-added tax I have heard  
12 of personally is in France, where a can of salmon imported  
13 into France double in value before it gets to the store,  
14 before the retail price is marked on it. I appreciate it  
15 is an import into France. Certainly foodstuffs are not  
16 exempt.

17 COMMISSIONER WALLS: They are exempt for export,  
18 therefore if somebody else's salmon went into France they  
19 have to pay the same tax as you are worrying about having  
20 to pay.

21 MR. JONES: Value-added tax in primary industry  
22 depends upon what value the tax is added to. If it was  
23 regulated in one way it would do us no harm and in another  
24 way it would add to our problems.

25 THE CHAIRMAN: The French value-added tax is  
26 25%. Of course, when you ship your salmon into France,  
27 and, from what you say, in that country it is a pretty  
28 high levy - if we impose this in Canada, it wouldn't  
29 presumably affect the export value of your product and  
30



9 1 therefore I wouldn't think it would do any damage to you.

2 MR. JONES: If it didn't affect the foodstuffs  
3 in the domestic market--domestic market is still a big  
4 market to us. The percentage varies from year to year;  
5 maybe 60-50. The domestic market still accounts for 60%  
6 of our canned salmon.'

7 THE CHAIRMAN: I think we are all clear on that.  
8 Unless you have anything more to say to us we are satis-  
9 fied with regard to the questions we have put to you. We  
10 will continue to reflect on your statements. I am rather  
11 interested in your point that all advances should be  
12 written off. The implications of that would extend, I  
13 would think, beyond your industry, because I can think of  
14 other industries which deal in advances in somewhat the  
15 same manner; people cutting in the woods and things like  
16 that. Perhaps all these advances should be excluded as  
17 assets; I don't know.

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pw 1 Certainly I believe one should be concerned in a matter of  
2 this kind, primarily with the appropriate determination of  
3 the income, and then after that be concerned about incen-  
4 tives.

5 I think one should look at it step by step. I  
6 am a little impressed by the fact that you people seem to  
7 take the view that income is best determined by writing  
8 off these advances. I wonder if your auditors, who will be  
9 the impartial observers of this, will agree with you.  
10 Perhaps I should make some enquiries and see.

11 MR. JONES: May I add to that? They did help us  
12 quite a lot in preparing this brief.

13 THE CHAIRMAN: Do you think they would be  
14 prepared to state that the best way to determine income,  
15 in the case of your company, would be to write off all  
16 the advances?

17 MR. FERGUSON: Would you like the name of our  
18 accountant in each case?

19 THE CHAIRMAN: If you care to write us a letter  
20 to that effect, yes, I think I would very much.

21 MR. FERGUSON: So you can check with them.

22 THE CHAIRMAN: Yes. I think I would like to ask  
23 them if they would agree with you on that score.

24 COMMISSIONER PERRY: I am afraid his own firm  
25 might be auditing one of your accounts.

26 THE CHAIRMAN: Perhaps I am a little biased in  
27 this respect. I think I will get an impartial view.

28 Thank you very much indeed. That is an interesting submis-  
29 sion and we are very glad to have seen you.

30 We will now take a five-minute break.



2 1 --- Short Recess

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THE CHAIRMAN: Mr. Secretary, may we resume?

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5 THE SECRETARY: Mr. Chairman, the second submis-  
6 sion this morning is being presented by Mr. H.S. Brown,  
7 who is owner of the Kings' Way Lamp and Manufacturing  
8 Limited. Mr. Brown is here this morning to speak to his  
9 brief which I now enter into the record as Exhibit No.  
10 116.

10

11 --- EXHIBIT NO. 116: Brief of the Kings' Way Lamp and  
12 Manufacturing Limited.

12

13

SUBMISSION OF KINGS' WAY LAMP AND  
14 MANUFACTURING (1960) LIMITED.

14

15

Appearance: Mr. H.S. Brown

16

17

18 THE CHAIRMAN: Good day, Mr. Brown. We have  
19 your submission, which we have all read, and we will have  
20 some questions to put to you. You are a manufacturer and  
21 importer both, I think, from what you have said.

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21

MR. BROWN: More importer now than previously.

22

23 THE CHAIRMAN: And you address yourself to us  
24 because you are interested in taxation and because of its  
25 effect on your own business?

24

25

MR. BROWN: Yes.

26

27 THE CHAIRMAN: We are very much concerned about  
28 the charge that is made by you and by many others to the  
29 effect that sales tax is applied in larger amounts on  
30 domestically-produced goods than it is on similarly  
imported goods.



31 MR. BROWN: Yes.

2 THE CHAIRMAN: We have asked people if they could  
3 give us examples of this. So far we have not been able to  
4 secure much in the way of concrete evidence and as we read  
5 this, we wondered if you could help us in that at all.

6 MR. BROWN: I have tried my best to go over this  
7 - I had sent Mr. Hees the last information I had. If I  
8 could give you an instance of what had happened with our  
9 company, or our industry ---

10 THE CHAIRMAN: I wish you would. If you could  
11 quote figures, we will take them down and add them up.

12 MR. BROWN: At one time we paid 23% duties on  
13 shading materials coming in to Canada. That was plus  
14 sales tax. These are rolls of materials. Under our last  
15 Federal Government that was increased to 27%. Now, today,  
16 we can still bring in the finished material, which includes  
17 the shades made up by American and European labour and only  
18 pay 22½%.

19 THE CHAIRMAN: We are really trying to get at  
20 sales tax, not duties.

21 MR. BROWN: This is a portion of our problem.  
22 Where our basic raw materials duties are sometimes  
23 higher than the finished goods, it reflects in our own  
24 finished product here.

25 What happens; we operate under Section ET111  
26 which does not allow us to set up a price on an item.  
27 We pay sales tax on our top selling price, which includes  
28 all our costs as a wholesaler.

29 THE CHAIRMAN: Would you like to proceed, Mr.  
30 Walls?



4 1 COMMISSIONER WALLS: I have one or two questions  
2 here. You say that you favour both provincial and federal  
3 taxes to be collected together?

4 MR. BROWN: That is right.

5 COMMISSIONER WALLS: Would you recommend their  
6 being collected by the Federal Government? One government  
7 collecting both.

8 MR. BROWN: Yes, I would say either one. It  
9 doesn't really matter. They both have got competent men.

10 COMMISSIONER WALLS: What do you think would be  
11 the consumer reaction to payment? First of all, the 5%  
12 B.C. tax and then paying the federal tax on the consumer  
13 level would bring it-instead of 11% be 8%.

14 MR. BROWN: Yes.

15 COMMISSIONER WALLS: So you would have a 13%  
16 sales tax. What do you think would be the consumer reac-  
17 tion in this province to a sales tax of 13%?

18 MR. BROWN: Well, I honestly don't think you  
19 would get a bad reaction, if they were made to understand  
20 that in some cases now they are paying as much as 80% of  
21 the original manufacturing price in sales tax, by the time  
22 they pick it up from a retail store.

23 If I can use just a general example; I am making  
24 an item for \$10 - I sell it to you as a distributor,  
25 charge you plus tax, which would be, let us say, 11%, to  
26 keep it in round figures. So the cost is then eleven.  
27 If you double your cost, double it again, the wholesaler,  
28 and the retailer doubles it again, that original dollar  
29 tax is up to \$8.

30 COMMISSIONER WALLS: Yes, I understand about the



51 pyramiding but you feel that consumers generally, if there  
2 was a public relations campaign put on, would accept sales  
3 tax as high as 13%?

4 MR. BROWN: I really do. I have talked to a fair  
5 number of people in the past five years and I have tried to  
6 get something done in respect to our own company, until we  
7 just quit, and there is none of them have had too much  
8 objection.

9 One thing that I would very much like to see is  
10 a minimum down-payment at the retail level that would cover  
11 taxes. There are firms in this town now - not allied to  
12 us or our industry - that you can buy an item today; you  
13 don't pay anything until next January. The small man  
14 can't meet it.

15 COMMISSIONER WALLS: I notice that you say "Do  
16 you realize that sales tax is collected on any product  
17 that may have to be sold at a loss?" Now, if you, as a  
18 manufacturer, sell a product at a loss, you take the manu-  
19 facturer's loss?

20 MR. BROWN: Yes.

21 COMMISSIONER WALLS: But surely the buyer pays  
22 the sales tax? In other words, sales tax is added. The  
23 buyer of your product pays the sales tax so you don't have  
24 to take the loss on the sales tax.

25 MR. BROWN: No. This is a personal bias here.  
26 If I were to produce an item for any number of dollars,  
27 and find I have guessed wrong, when I sell that - let us  
28 say I sell it at half my cost - I still have to add the  
29 tax. When I go to a wholesaler or retailer, they don't  
30 look at my cost. They look at their total cost. Again,



61 if I use a \$10 item, I should be getting \$20 from that  
2 retailer or wholesaler, whichever the case may be. My  
3 cost is \$10 plus tax, or \$11, and this is something that  
4 has always been a personal gripe.

5 COMMISSIONER WALLS: You don't absorb the sales  
6 tax yourself?

7 MR. BROWN: I sell tax-included in each case.

8 COMMISSIONER WALLS: You do sell tax-included?

9 MR. BROWN: Yes. We have found we have less  
10 argument. We have got small retailers that still can't  
11 sign their own name. When you add tax on to a product to  
12 them, you can have the whole order bounce back on you  
13 because they feel that you have charged them in excess of  
14 what you originally told them.

15 You find quite a lot of this type of thing in  
16 some of the bigger areas.

17 COMMISSIONER WALLS: Would you say that this  
18 situation applies to quite a number of smaller manufac-  
19 turing concerns?

20 MR. BROWN: It does.

21 COMMISSIONER WALLS: That is very interesting.

22 THE CHAIRMAN: There is no compulsion to show  
23 the tax in the law as it now stands?

24 MR. BROWN: No.

25 COMMISSIONER WALLS: Mr. Brown, one thing that  
26 I notice you mention; that your average earnings in your  
27 industry is 2.5%?

28 MR. BROWN: Yes.

29 COMMISSIONER WALLS: And you want to encourage  
30 foreign investors because you have difficulty getting



71 capital from the bank because of the low earning of the  
2 industry?

3 MR. BROWN: That is true.

4 COMMISSIONER WALLS: Well, do you really think  
5 that a foreign investor would be any more ready to invest  
6 in an industry that is only showing a return of  $2\frac{1}{2}\%$  than  
7 our own banks?

8 MR. BROWN: When there is a spread of distribu-  
9 tion, they don't mind, because they feel they can make it  
10 up in other ways. I have an offer right now. You cannot  
11 say I am successful because I refuse to employ people  
12 until I see something changed in the tax, but I have an  
13 offer right now from an American firm that will put up  
14 three-quarters of a million dollars right here if I will  
15 run it for them. They are not much concerned with what  
16 they will make here as their overall production throughout  
2 17 the United States, and the fact they only might make  $2\frac{1}{2}\%$   
18 here could increase their total profit by half a percent  
19 right through the United States. These people don't mind  
20 putting up money.

21 They seem to have a different type of banking  
22 system than we have got here. We have a good bank manager;  
23 dealt with him for a number of years. I have shown a loss  
24 for three years. This will be my third year in a row.  
25 I am not too concerned because if the bank does not  
26 finance me, I cannot pay my way out of it, but I will lay  
27 you any money today that that bank will withdraw my credit  
28 if he sees my statement. I am not trying to coax him into  
29 doing that. It's just a case that is what is happening  
30 and I have no reason for hiding it, nor do I intend to.



8 1 I want to produce in this country. I would be  
2 better out of the country, but I was born here. I hate to  
3 see this kind of thing happening.

4 COMMISSIONER WALLS: That is all I have.

5 THE CHAIRMAN: You made the rather startling  
6 statement of 80% relationship between the sales tax and  
7 your manufacturing cost.

8 MR. BROWN: Yes.

9 THE CHAIRMAN: That 80% is a result of pyra-  
10 miding the tax, of course?

11 MR. BROWN: Yes.

12 THE CHAIRMAN: Your thought being that if the  
13 tax was removed from the first level to the third level,  
14 or the top level, that the pyramiding would cease?

15 MR. BROWN: Yes.

16 THE CHAIRMAN: The pyramiding to these people  
17 who do it represents a profit to them?

18 MR. BROWN: Yes.

19 THE CHAIRMAN: If that ceases, then that profit to  
20 those people, would also disappear?

21 MR. BROWN: Yes.

22 THE CHAIRMAN: Would they not have to sell goods  
23 for prices that would include that profit, even though it  
24 wasn't a pyramiding of taxes? In other words, would the  
25 goods not come out at the same price at the retail end?

26 MR. BROWN: I don't think it would, no, because  
27 you can take your average who lesaler; I think he works, or  
28 tries to work, on about 40% mark-up, which would include  
29 items anywhere from a dime a dozen to \$100 apiece. He  
30



9 1 still takes the same average mark-up. I would guess there  
2 might be some adjustment, very, very small, percentage-wise,  
3 at the end of the year when they figure the cost.

4 THE CHAIRMAN: Most wholesalers achieve a very  
5 small net profit.

6 MR. BROWN: Yes.

7 THE CHAIRMAN: Now, if that disappeared would he  
8 not change his traditional mark-up, whatever it is now,  
9 to something different?

10 MR. BROWN: Yes.

11 THE CHAIRMAN: Thus accomplishing the same  
12 result as though he was pyramiding?

13 MR. BROWN: Well, if I can take a known cost out  
14 of an item, I don't have to charge both - when I work out  
15 at the end of my year, say, four, five, or six percent  
16 profit, and I want to do better, I don't say four or five  
17 percent. I might say half of one percent, or something of  
18 that nature.

19 If I can drop, as I feel, that 10% sales tax as  
20 a manufacturer I would save it on my bad debts, to start  
21 with. Now, I can save it off the bad debts, the profit I  
22 am taking for handling it. That 10%, I wouldn't have to  
23 charge at all.

24 THE CHAIRMAN: That is an interesting point,  
25 thank you.

26 COMMISSIONER MILNE: You would be using a  
27 different method of arriving at your break-even point?

28 MR. BROWN: Yes. Right now, each time I lose an  
29 account, I have to pay the sales tax.

30 THE CHAIRMAN: Yes, but the relationship of the



10 1 loss of sales tax to your total loss must be very small  
2 indeed?

3 MR. BROWN: About half of one percent, but that  
4 is also about what it costs us to handle it.

5 THE CHAIRMAN: Your bad debt losses are very  
6 high.

7 MR. BROWN: That is true. I think it's a fairly  
8 close average in Western Canada.

9 COMMISSIONER GRANT: In your suggestion that the  
10 present manufacturers' tax should be placed at the retail  
11 level, Mr. Walls was questioning you on the consumer  
12 reaction to that.

13 MR. BROWN: Yes.

14 COMMISSIONER GRANT: I would like to ask you if  
15 you have any views as to the reaction of the Provincial  
16 Legislatures to such a move?

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/PB/dpw 1 COMMISSIONER GRANT: I think that eight out of  
2 ten provinces now<sup>im</sup>pose retail sales tax. That is within  
3 the field of direct taxation, where they have been granted  
4 the right to impose that type of tax under the British  
5 North America Act. While it is true that the Federal  
6 Government has the right to impose tax at all levels,  
7 that is direct or indirect, the provinces have come to  
8 regard the direct tax, retail sales tax, as their own  
9 field. It has been suggested that there would be provin-  
10 cial opposition to a method such as this, if the Federal  
11 Government were to impose such a tax, that it might mean  
12 they would have to set up their own machinery to collect  
13 it, which would be costly. Have you any observations on  
14 that?

15 MR. BROWN: I would gather that you would get a  
16 fair amount of griping, especially from our Provincial  
17 Government. I think, if an explanation was given that a  
18 good many people don't get - explanation of any reason for  
19 taxes at any time or explanation for any change - if it  
20 were explained and also minimum down-payments used, it  
21 would be of great advantage to small retailers that are  
22 dropping to the wayside as fast as small secondary  
23 industry.

24 COMMISSIONER GRANT: That is consumer reaction?

25 MR. BROWN: Yes.

26 COMMISSIONER GRANT: I am interested in whether  
27 you have given any thought as to whether the various legis-  
28 latures would consent to the collection of the federal tax  
29 without which it would probably be too expensive a change  
30 to make.



2 1 MR. BROWN: On that point, I didn't, no. I don't  
2 know how emitted they are in most cases. If it is found  
3 this tax is essential and comes to taxing either people or  
4 industry I don't think that the provincial governments  
5 would turn it down.

6 THE CHAIRMAN: Mr. Brown, what is this "hungry  
7 dog"? I don't quite follow the second last paragraph on  
8 page 2. I have been trying to trace the meaning, and I  
9 think possibly the meaning is, if your business is suffi-  
10 ciently successful to earn six to ten percent in relation  
11 to its sales or its capital, whichever you are speaking of  
12 there doesn't matter very much. If it is successful  
13 the Government will therefore clip it by taxation and  
14 therefore if one operates in a secondary industry field  
15 it is impossible to survive because one can't get money  
16 unless he is successful and if he is unsuccessful it is  
17 taken away in taxation.

18 MR. BROWN: That has been almost the case in  
19 our industry. It is taken away from us before we can  
20 accumulate enough. For the sake of argument, if I go back  
21 to sales tax again - we find we are paying sales tax out  
22 almost 30 days before we get it now. It is a profit that  
23 is there on paper, but we haven't got it. At one time we  
24 paid payments per month on what we thought our earnings  
25 would be to the Income Tax Department.

26 THE CHAIRMAN: You are talking about income tax  
27 now?

28 MR. BROWN: I am referring to my "hungry dog"  
29 paragraph here. We found that we had to borrow from the  
30 bank to meet each month's payment before we got what we



3 1 thought we would get out of our accounts. It reached a  
2 point we owed more between provincial and federal govern-  
3 ment agencies than we could collect ahead of us for some  
4 time. For the sake of argument, we lost a big proportion  
5 of our suppliers, Canadian suppliers, in the lamp industry  
6 during the Conservative Government, which meant we had to  
7 import.

8           When we had to import our duties ran anywhere  
9 from 22 to 25 percent on raw materials, which tied up a  
10 quarter of our capital. By the time we produced an item  
11 and still hadn't collected anything we had to remit to the  
12 Federal Government, had to remit to the sales tax office,  
13 had to remit to the Provincial Government -- we needed 50  
14 cents of somebody else's money for \$1-worth of business.  
15 It was all on tax.

16           THE CHAIRMAN: You had to satisfy the hunger of  
17 the Government by going to the bank?

18           MR. BROWN: That is correct. In my case I knew  
19 each time I needed money from the bank, by the time I  
20 could satisfy his requirements with an audited statement  
21 of one thing and another my cost of keeping that type of  
22 thing - I was going further in the hole than if I forgot  
23 about doing any more business. This is basically what we  
24 have done now. We laid off our people. We import from  
25 Japan, Europe or the States or we represent factories out  
26 of Canada.

27           Personally, I make more money today living in  
28 this country like a parasite than I could when I produced  
29 in it. This is something I don't enjoy. I think I have  
30 enough knowledge and that I could produce and employ



4 1 people who would pay taxes. Under the existing regulations  
2 I wouldn't gamble my money at  $2\frac{1}{2}\%$  to provide the Government  
3 with  $11\%$ .

4 THE CHAIRMAN: I still am not satisfied with what  
5 I think is the most important matter you are bringing before  
6 us; namely, the fact that sales tax - and sales tax is what  
7 I am concerned with - is greater on domestic goods than on  
8 imported goods.

9 MR. BROWN: It is.

10 THE CHAIRMAN: That may well be, but I don't see  
11 why, nor do I see an example of it.

12 MR. BROWN: I think I have an example right here.  
13 This goes back some time. This is merchandise - may I  
14 bring this to you?

15 THE CHAIRMAN: Yes, by all means.

16 MR. BROWN: This is merchandise I went and had  
17 made in Japan. My cost of purchasing that in Japan was no  
18 greater, no less than if I produced it in Canada. To  
19 bring it into the country and pay duty and sales tax -  
20 now I have my wholesale tax cost-free. If I had produced  
21 it in Canada I am charged tax on my wholesale cost.

22 THE CHAIRMAN: Give us the figures you paid on  
23 these goods brought in from Japan. You paid a sales tax  
24 on what?

25 MR. BROWN: I would pay sales tax on this item  
26 at  $47\frac{1}{2}$  cents.

27 THE CHAIRMAN:  $47\frac{1}{2}$  cents?

28 MR. BROWN: Yes.

29 THE CHAIRMAN: That is at  $11\%$ ?

30 MR. BROWN: Yes.



THE CHAIRMAN: That is about  $5\frac{1}{2}$  cents?

MR. BROWN: Yes.

COMMISSIONER WALLS: Might I interject? That  $47\frac{1}{2}$  cents is duty-included, is it?

MR. BROWN: No, without duty.

COMMISSIONER WALLS: You pay a sales tax after duty has been applied?

MR. BROWN: Yes, and I had my duty.

COMMISSIONER WALLS: That should be applied before sales tax.

MR. BROWN: After we take that 20%.

THE CHAIRMAN: Nine cents?

MR. BROWN: Yes.

THE CHAIRMAN: Duty -  $56\frac{1}{2}$  cents and sales tax on that?

MR. BROWN: Yes.

THE CHAIRMAN: Sales tax at 11% is about 6.2 cents?

MR. BROWN: Yes.

THE CHAIRMAN: If you manufactured - that is imported?

MR. BROWN: If I manufactured this item I must first import the raw materials.

THE CHAIRMAN: Yes.

MR. BROWN: Which, in this case, would be around 24 cents.

THE CHAIRMAN: Raw materials?

MR. BROWN: Yes; and my duty on that item, my duty on the finished goods was  $22\frac{1}{2}$  cents and my duty on the raw materials, if I kept to the same proportion, was 27 -



6 1 call it 25.

2 THE CHAIRMAN: Duty 25%.

3 MR. BROWN: Yes.

4 THE CHAIRMAN: Which would be six cents?

5 MR. BROWN: Yes.

6 THE CHAIRMAN: Raw material at 30 cents?

7 MR. BROWN: Yes. My cost up to here is 30  
8 cents.

9 THE CHAIRMAN: Right.

10 MR. BROWN: My cost of producing averages me  
11 about one-third.

12 THE CHAIRMAN: Ten cents?

13 MR. BROWN: Yes. My cost of selling has been  
14 averaging me almost 30%.

15 THE CHAIRMAN: Thirty percent of forty, that  
16 is 12 cents?

17 MR. BROWN: Yes. I can take either one of those  
18 items and sell them at \$2.10 apiece.

19 THE CHAIRMAN: At \$2.10. Sales tax would be  
20 what?

21 MR. BROWN: My sales tax is paid on this one.

22 THE CHAIRMAN: No further sales tax?

23 MR. BROWN: Sales tax is still applicable if I  
24 make it in this country.

25 THE CHAIRMAN: Sales tax on \$2.10?

26 MR. BROWN: That is right.

27 THE CHAIRMAN: Eleven percent, that is 23 cents?

28 MR. BROWN: Yes.

29 THE CHAIRMAN: What you are saying: in this case



1 you have sales tax of 23¢ on what is manufactured and when  
2 you import you pay sales tax of 6.2 cents?

3 MR. BROWN: Yes.

4 THE CHAIRMAN: That is a big difference.

5 MF BROWN: It is a big difference in a competi-  
6 tive business.

7 THE CHAIRMAN: What is the matter with this  
8 example?

9 COMMISSIONER WALLS: Nothing. It is based on  
10 the fact that you have in this particular product a compara-  
11 tively high margin of profit. That is why this case is so  
12 extreme.

13 MR. BROWN: I can talk about any item you would  
14 like. If you go through our records you will find exactly  
15 the same thing. If I may use an instance; I bought a carload  
16 of lamps this week in the United States which would have  
17 employed about 100 people for a month. I have no problems;  
18 Workmen's Compensation, unemployment insurance, labour  
19 relations, or anything else. I am free of that. I can  
20 undersell any Canadian manufacturer in that item.

21 THE CHAIRMAN: Isn't the critical point here the  
22 fact that you buy them for 47½ cents and you add sales tax  
23 on that plus duty?

24 MR. BROWN: Yes.

25 THE CHAIRMAN: Is that a fair market value in the  
26 country of export? Presumably it is, because you figure  
27 duty on it.

28 MR. BROWN: Yes. If I were charged sales tax  
29 either at the manufacturers' level or not charged sales  
30 tax at all I would produce in this country. As long as I



8 1 am charged sales tax both as a manufacturer and as a whole-  
2 saler I wouldn't employ the people.

3 COMMISSIONER MILNE: I am very interested in  
4 these figures. I had occasion fairly recently to look at  
5 something along the same line; a line fairly related to  
6 your type of industry, and this selling cost, as we see  
7 it here, seems to be a very vital factor right now.

8 MR. BROWN: It is if you are charged tax on it.  
9 I felt, and I feel, I am paying 11% a month on my selling  
10 costs in sales tax and that is more than I can make and  
11 any time I have to give the Government four times what I  
12 can take home I will quit doing it.

13 COMMISSIONER MILNE: Theoretically, goods  
14 imported at  $47\frac{1}{2}$  cents should be at the same level in the  
15 country of export at which your costs are here; that is  
16  $47\frac{1}{2}$  cents, including selling and distribution costs.

17 MR. BROWN: Yes. Let me say something else:  
18 that item of  $47\frac{1}{2}$  cents is a fair market value there. If  
19 we were out from under so much taxation and could produce  
20 in this country our costs are no greater here. We have  
21 got just as good machinery, and if a man is making a  
22 dollar on a machine or \$2 on a machine, it is the machine  
23 that is producing the item. Our problem continually is,  
24 one, we are getting past the production stage and into  
25 sales costs. We have a man that just left from here to  
26 Rupert, and he may make \$100,000, but on the cost point  
27 of view he gets to \$500. I can send a man from our office  
28 here to the major retailers who will buy just as much for  
29 half a gallon of gasoline and yet I am charged sales tax  
30 on both when I produce it.



9 1 COMMISSIONER GRANT: The materials that go into  
2 your production, are they imported?

3 MR. BROWN: The biggest percentage would be. As  
4 I have said, we have lost the bulk of our Canadian  
5 suppliers during the last Federal Government reign. I  
6 don't know why, particularly.

7 COMMISSIONER GRANT: Your letter indicates that  
8 you are in the lamp manufacturing business.

9 MR. BROWN: Yes.

10 COMMISSIONER GRANT: The electrical part of your  
11 product would be produced in Canada, would it not?

12 MR. BROWN: We buy today from either Levit in  
13 the United States or the Canadian counterpart, Levit of  
14 Canada Limited. They do the importing in this case.

15 COMMISSIONER GRANT: The fabric would come from  
16 where?

17 MR. BROWN: Our shade fabrics are mostly  
18 American; some Japanese. The quality of the metal - if  
19 we are going to get good quality we almost have to bring  
20 it out of Europe today.

21 COMMISSIONER GRANT: The heavy duty on the  
22 imported product would put the Canadian manufacturer in a  
23 more competitive position than the importer?

24 MR. BROWN: That is true. I have also been  
25 told possibly I am in the wrong area for manufacturing.  
26 I don't get protection. It should be survival of the  
27 fittest. There are lots of things we could do in this  
28 country even if the border to the States were open. We  
29 could take business from Vancouver and Seattle and Port-  
30 land, Oregon, without duty either way. I am willing to



10 1 compete with anybody because I think I know as much about  
2 my own field as the next man. I am not bringing it in,  
3 paying duty and shipping it out again. Even with the  
4 drawback we have waited six months before we get a portion  
5 of our tax back and we never get fully back what we pay.  
6 We ship stuff to Seattle, but it is not Canadian. I make  
7 a trip to Italy and have them make the product. I could  
8 produce it here but I won't.

9 COMMISSIONER GRANT: How many employees did you  
10 have before you went out of manufacturing?

11 MR. BROWN: Approximately 100, and I would say  
12 possibly another 50 through Vancouver areas that we were  
13 more or less responsible for.

14 COMMISSIONER GRANT: As a result of going out of  
15 manufacturing, what is the reduction of your employees?

16 MR. BROWN: We have two people that actually have  
17 anything to do with manufacturing and that is strictly  
18 assembling.

19 THE CHAIRMAN: You haven't really answered Mr.  
20 Grant's question. You had 100 plus 50 before. What do  
21 you have now?

22 MR. BROWN: We have two that are partly in manu-  
23 facturing, and that is only assembly work.

24 THE CHAIRMAN: The 100 plus 50 were also doing  
25 distribution?

26 MR. BROWN: The 100 were our own employees that  
27 we used on production items. The 50 were trades through  
28 town that we would pay.

29 COMMISSIONER GRANT: I see. Your company, Kings'  
30 Way Lamp and Manufacturing Limited - when you were a



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TORONTO, ONTARIO

2267

11 1 producing company, how many full-time employees?

2 MR. BROWN: If I say low 50 and high of 100,  
3 directly employed.

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2 COMMISSIONER GRANT: Since you have gone out of  
3 manufacturing, what is the low and high?

4 MR. BROWN: Two.

5 THE CHAIRMAN: Keeping your books? Distributing  
6 your products and everything?

7 MR. BROWN: This is all related to manufacturing.  
8 We have one girl in the office and myself.

9 COMMISSIONER GRANT: I wish you wouldn't just  
10 relate it to manufacturing. How many in your employ now?

11 MR. BROWN: Counting myself, four. Myself, a  
12 girl in the office, and two in the factory.

13 COMMISSIONER MILNE: It may or may not be impor-  
14 tant, Mr. Brown, but the name of your company - did you  
15 reorganize in 1960?

16 MR. BROWN: Yes, we did.

17 THE CHAIRMAN: Mr. Brown, I am very grateful to  
18 you, indeed, because we have been looking for this kind of  
19 comparison that you have given us now. We haven't been  
20 very successful in achieving it. You have given us some-  
21 thing that is extremely useful to us here.

22 Some years ago I had to take a look at sales tax  
23 and I must say I couldn't find the answer to equate sales  
24 tax on imported goods as against domestic goods, and I so  
25 reported.

26 You have given us information which would be  
27 very helpful to us. If there is any further evidence you  
28 care to send in to us along this line, which is one of the  
29 most important matters before us, I think - we certainly  
30 do not want a tax system to favour imported goods as  
31 against domestic goods. That would be all wrong.



2 1 If you can produce evidence that that is, in  
3 fact, the case, it would be extremely helpful to us to  
4 get that evidence.

5 MR. BROWN: I have sent, at different times,  
6 actually certified copies of our costs against identical  
7 items from other countries to Mr. Nolan, Gorman and a  
8 fellow by the name of Erhart Regier. I think the chap  
9 that understood it best in the political end was Erhart  
10 Regier. He was an accountant himself. He could see it.  
11 He didn't even have the courtesy of replying from Ottawa.

12 I have gone through the same thing with Mr. Hees  
13 and he understood it, and then quit, so I have had five  
14 years of no answers until I quit.

15 THE CHAIRMAN: We are particularly anxious to get  
16 a comparison of the sales tax - not your total costs, but  
17 the sales tax involved in this matter, and if you have got  
18 any illustrations of that kind, which would be clear to us,  
19 and you can take a photostat of them and send them to us,  
20 we would appreciate it very much. You have scattered them  
21 all over Ottawa. It would be a little hard for us to run  
22 them down.

23 MR. BROWN: I realize that. I can and will send  
24 you this.

25 THE CHAIRMAN: Thank you very much indeed. That  
26 is very helpful to us. Those are all the questions we have  
27 got. Have you anything further you would like to say to us?

28 MR. BROWN: No, except I would like to see both  
29 our income tax and sales tax come under the same jurisdic-  
30 tion. I have no objection to paying taxes, but I would  
31 sooner pay it on profit than on losses.



31 THE CHAIRMAN: Under the same jurisdiction? They  
2 are both in the Department of National Revenue at the  
3 moment.

4 MR. BROWN: If I may use the Income Tax for an  
5 example, I would much rather see it come under someone  
6 like the Income Tax Department, rather than the sales tax  
7 office. This is no reflection on the fellows in the sales  
8 tax office, but quite honestly our last government - I was  
9 a Conservative for years, bringing politics into it - used  
10 the tax office like a Gestapo.

11 THE CHAIRMAN: In order for us to pay any atten-  
12 tion to that, you will have to document that statement  
13 pretty well.

14 MR. BROWN: I really would very much like to see  
15 something like that.

16 THE CHAIRMAN: Well, thank you very much indeed,  
17 Mr. Brown. You have been, as I have already said, very  
18 helpful to us. If you could continue being helpful along  
19 that particular line I spoke of, we would appreciate it.

20 MR. BROWN: I can send you copies of a good many  
21 instances.

22 THE CHAIRMAN: Thank you very much. Good morning,  
23 Mr. Brown, and thank you. Mr. Secretary?

24 THE SECRETARY: All ready, Mr. Chairman. The  
25 third submission this morning is being presented by Mr.  
26 William Headley MacInnes of Vancouver. Mr. MacInnes is  
27 here to speak to his brief, which I now enter into the  
28 record as Exhibit 117.

29

30



--- EXHIBIT NO. 117: Submission of Mr. William H. MacInnes of Vancouver.

SUBMISSION OF MR. WILLIAM H. MacINNES

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. MacInnes.

MR. MacINNES: Good morning, Mr. Chairman.

THE CHAIRMAN: We are only a tax commission. We haven't got anything to do with the administration or collection of taxes. We have no hesitancy whatsoever in expressing our sympathy to you for your long period of litigation with the Department and your difficulties.

It seems most unfortunate and these things are of extreme interest to us. We are charged with examining the administration of the Act. We have people involved in that particular task now and we will certainly require that they take a look at the circumstances surrounding your own experience which you have been so kind as to put before us in this submission. Thank you very much for your submission.

MR. MacINNES: Mr. Chairman, under the Act Parliament sets the taxes. In this particular instance, my complaint - while my submission seems to be somewhat personal, I am not presenting it for any personal advantage, but calling attention to a serious grievance and hiatus.

Now, if you will look in the appendix, at paragraph 9 on page 7, you will see that the Supreme Court, in their judgment in the Scott case, makes the statement that the Act nowhere specifically deals with these



5 1 discounts, referring to mortgage discounts.

2           It is possible to deal expressly with the  
3 problem and the Act has not done so. Now, I submit, sir,  
4 that as you are dealing with tax legislation, the income  
5 tax is providing approximately 30% of our revenue and in  
6 the income tax there should be definite provision for the  
7 application of the Act if the tax is going to be applied.

8           Now, the Supreme Court in April, in their judg-  
9 ment given in the Scott case in April, says the Act does  
10 not cover the case. I am bringing my experience forward  
11 to show had the Act covered the case, had Parliament acted  
12 or if the secondary source of law - the primary source of  
13 law is, of course, by Parliament. The secondary source of  
14 law is from the judgment of the courts.

15           Now, in the appendix, the first paragraph in the  
16 appendix is a quotation from the judgment of the Tax  
17 Appeal Board. Now, you see the facts of this; that during  
18 the period under review, 1946 to 1954, Parliament was  
19 advised by the Minister on different occasions that Canada  
20 did not tax capital gains. During that period the Depart-  
21 ment interpreted discounts to be capital gains and claimed  
22 no taxes.

23           Now, in 1956, the Department, not Parliament,  
24 not the courts, but the Department, changed and decided  
25 they were going to collect taxes under the interpretation  
26 that the buying of the mortgages constituted a business  
27 and that the discounts were an incidental profit of that  
28 business and so taxable as income.

29           Now, in connection with that, the Tax Appeal  
30 Board, you see, pointed out that they had heard the Hall



case and given judgment that discounts were not taxable. They had heard the Lynd case and declared them non-taxable. The Department gave notice of appeal but did not prosecute it.

In relation to the Cohen case, it went to the Exchequer Court and the Exchequer Court declared the discounts to be capital gains and not taxable and yet they persisted in taxing me, and others, and the Tax Appeal Board goes on that "despite the two decisions of this Board, the Department officials in the same taxation office as that in which the Hall appeal arose, have deliberately chosen to ignore the findings of this Board and have proceeded on their sweet way in this third case, irrespective of what may have been found to be the law in this regard.

If this is to become the practice of the respondent's officials, I feel that it most certainly should be brought to the attention of the public, and, indeed, to that of Parliament, as otherwise there does not seem to be much point in having sitting an independent tribunal and endeavouring to interpret the law for the taxpaying public insofar as tax legislation is concerned."

In endeavouring to interpret a law for the taxpaying public, insofar as tax legislation is concerned - you see we are dealing strictly with the question of taxes. It is true that we are dealing with it from the point of view of the Tax Department usurping the right and power of Parliament to levy a tax, but they are collecting it.

In 1957 the Minister of Finance was in Vancouver and I spoke to Mr. Harris and pointed out the incongruity



7 1 that he stated in the Commons that Canada was not taxing  
2 capital gains, yet, at the same time, the Tax Department  
3 was taxing them under the Income Tax Act, and the Tax  
4 Appeal Board and the Exchequer Court had declared the  
5 discounts to be capital gains and yet he said, "You have  
6 a simple remedy; appeal to the Tax Appeal Board.

7 The remedy did not prove very simple. I  
8 appealed to the Tax Appeal Board and got into a legal  
9 tangle that carried me through for six years under very  
10 heavy tension and anxiety and cost me thousands of dollars  
11 in legal expenses. That was the simple remedy that the  
12 Minister of Finance suggested to me in 1957.

13 Now, I submit that it is not a question of my  
14 trying to - you can't do me any good. It's a question of  
15 there is the law, or the absence of the law, and that  
16 Parliament should act or the judgment of the court in the  
17 matter should be accepted or appealed, but to drag a thing  
18 on for six years with all the annoyance and expense  
19 involved in that, certainly shows a very grievous hiatus  
20 or break in the tax law.

21 THE CHAIRMAN: I think on that second point, sir,  
22 we agree with you without any doubt at all. On the matter  
23 of defining what is capital gain and what is income, we  
24 can see considerably more difficulty than you indicate.

25 MR. MacINNES: Don't you agree with me also that  
26 the Tax Department should not be permitted to adopt a new  
27 practice which is, in effect, a new tax legislation and  
28 particularly should not be permitted to apply this retro-  
29 actively? You see, when Parliament acts, the tax takes  
30 effect from the time they announce it. In this particular



case, from 1946 to 1954, the Department made no claim for taxes but in 1956, after the appeal was over, they decided and they go back. You see what a vicious thing it is? If they are going to do that, where the Department has the Tax Appeal Board, if the officials are going to do that sort of thing, there is no use in having a Tax Appeal Board or any other tribunal. That is number two.

Then, No. 3, the Tax Department should be required, in cases of doubt, to have the law clarified as quickly as possible. When a judgment re taxes has been given by the Tax Appeal Board, or the Exchequer Court, if the Department is not willing to accept and abide by it, it should promptly appeal to a higher court. Now, they had the judgment of the Exchequer Court in the Cohen case in 1957. Had they accepted that, well and good. If they were unwilling to accept that, if they had appealed that, the thing would have been settled in 1957, but, no, they wouldn't appeal the Cohen case. They dragged the thing until it caused confusion and they got the water so muddy in 1957 through the Scott case, they got a judgment in their favour, and then they went ahead. I think you have got the point on that.

THE CHAIRMAN: Indeed.

MR. MacINNES: The second point is a smaller one, in a sense. That is the matter of the marital status. A man with a wife and home is allowed \$2,000 exemption, or reduction. If his wife dies, and he wishes to continue his home, and has to hire a full-time housekeeper, the reduction is reduced to \$1,000 as a single man. This affects largely elderly people. The younger people usually,



9 1 or frequently, will have children still in the home, which  
2 will give them the \$2,000 reduction. It is more a case of  
3 the elderly people who wish to maintain, or retain, their  
4 home. They have to do it under heavier expense with a  
5 housekeeper than they did formerly with their wife but yet  
6 the reduction, the deduction, is reduced from \$2,000. I  
7 think you will see the fairness of that.

8 The third point goes to the question of sales  
9 tax. I was very interested to hear my neighbour discussing  
10 this problem of sales tax. We have, in our little business,  
11 a difficult problem with sales taxes which I have not  
12 brought forward to you here. Every small operation has to  
13 sell to wholesalers, retailers, and consumers, and then the  
14 great confusion: how to determine who pays the sales tax.

15 However, I am not going to go into that here  
16 because in our case it is a very complex thing, but what I  
17 am bringing here is this: the Government requires that  
18 manufacturers collect sales tax. The manufacturer is the  
19 Government's agent. If that agent is faithful and tries to  
20 collect and can't do it, why should he be forced to pay it?  
21 In other words, where the manufacturer has a bad debt, as  
22 we have had, why should he be required to pay the sales  
23 tax on that bad debt where he has not been able to collect  
24 the tax and has not been able to collect his own debt?  
25 That is one of the irritations which makes a general diffi-  
26 culty more annoying.

27 I submit that a manufacturer should not have to  
28 pay sales tax where, after due care, he has been unable to  
29 collect it, and, further, why should the Government put  
30 the manufacturer to the expense - even have got to pay the



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10 1 Government 4 cents. In the old days they used to have to  
2 pay a tax on the cheque, as well as the postage, to permit  
3 them to send the revenue to them.

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The Provincial Government

G/PB/dpw 1 regulations allow a small commission to cover expenses.

2 I submit the Dominion Government should do the same thing.  
3 I am not suggesting profit for the manufacturer, but they  
4 should allow some commission as does the Provincial Govern-  
5 ment to cover expenses. Thank you, sir, for the permis-  
6 sion to make this morning this personal presentation. As  
7 I say, it is not personally for myself. I have suffered.  
8 I would like to do whatever I can so that other taxpayers  
9 will not have to suffer what I have had to suffer for the  
10 last six years.

11 THE CHAIRMAN: Thank you very much indeed, Mr.  
12 MacInnes. As I said before, we would like to be able to  
13 achieve the results which you recommend, and that is to  
14 avoid the repetition of the circumstances which affected  
15 you. There are some complications, but we shall keep on  
16 looking at it. We understand the point you have put  
17 before us.

18 MR. MacINNES: On July 15th, the Wall Street  
19 Journal quoted from George Adam Smith, 1775:

20 "A good taxation system should not impose  
21 unnecessary trouble, vexation and oppres-  
22 sion on the public."

23 THE CHAIRMAN: Hear, hear.

24 MR. MacINNES: I submit it to you. If there are  
25 any questions I would be glad to answer them.

26 THE CHAIRMAN: I think we may have some.

27 COMMISSIONER WALLS: I have one question which  
28 rather disturbs me. In Section 43(4) of the Act it now  
29 allows the Income Tax Department after they have sent you  
30 formal assessment to go back four years for reassessment. In



2 1 1957, when you dealt with this case, the Act allowed that  
2 they go back six years. What would cause them to go back  
3 eleven years in your particular case?

4 MR. MacINNES: I wasn't trying to evade the tax.  
5 Mr. Fisher called attention to that fact and he told the  
6 Government in his judgment that they should not have taxed  
7 and should consider a refund. I didn't press the point  
8 and not having pressed the point I couldn't claim it later.  
9 I may have been foolish. I probably was. I didn't claim  
10 it. Quite frankly, I was so sure that the officials were  
11 wrong, I was so sure that the Tax Appeal judgment of the  
12 Hall and Lynd cases and the Cohen case would be followed,  
13 I wasn't worried whether they went back four or ten years.

14 Mr. Fisher, in his judgment, called attention to  
15 the fact the Government should not have made the assessment  
16 and should consider a refund, which they are not prepared  
17 to do.

18 THE CHAIRMAN: I think we fully understand what  
19 you have put before us, Mr. MacInnes.

20 MR. MacINNES: Thank you.

21 THE CHAIRMAN: We are very grateful for you  
22 coming and for your submission, and as I have already said,  
23 we will continue to consider it.

24 MR. MacINNES: All right, thank you.

25 THE CHAIRMAN: Good day, sir.

26 MR. MacINNES: Thank you for the consideration,  
27 sir. I must confess it wasn't a great pleasure to prepare  
28 because it was going back over torture and at my age I am  
29 not fit for real labour.

30 THE CHAIRMAN: We will consider it seriously, I



3 1 can assure you.

2 MR. MacINNES: I hope some other taxpayer will  
3 get the benefit of my experience. This is probably the  
4 last public appearance I will make.

5 THE CHAIRMAN: Thank you. Yes, Mr. Secretary?

6 THE SECRETARY: The next submission is being  
7 presented by Mr. Alec C. Beasley of Winfield, British  
8 Columbia. Mr. Beasley is here to speak to his brief which  
9 will be entered in the record as Exhibit 118.

10

11 --- EXHIBIT NO. 118: Submission of Mr. Alec C. Beasley,  
12 Winfield, British Columbia.

13

14 SUBMISSION OF MR. ALEC C. BEASLEY

15

16 THE CHAIRMAN: Good morning, Mr. Beasley. You  
17 have come some distance, I understand. Winfield is where?

18

19 MR. BEASLEY: It is Okanagan, between Kelowna  
20 and Vernon.

21

22 THE CHAIRMAN: You are a farmer?

23

24 MR. BEASLEY: Yes.

25

26 THE CHAIRMAN: And a tax reformer. For how many  
27 years?

28

29 MR. BEASLEY: That is right, yes.

30

THE CHAIRMAN: Have you had any success in  
reforming taxes?

25

26 MR. BEASLEY: Not directly. It is just trying  
27 to influence the population; not direct in any way.

28

29 THE CHAIRMAN: You refer to the impossibility of  
30 taxes on your farm. Impossibility is rather a strong term.

29

MR. BEASLEY: That was at that time, in the period

30



4 1 I was referring to in the Great Depression. They were  
2 ridiculous then.

3 THE CHAIRMAN: Those are realty taxes you are  
4 concerned with?

5 MR. BEASLEY: Probably.

6 THE CHAIRMAN: Your submission to us is that all  
7 taxes should be personal income tax?

8 MR. BEASLEY: Yes.

9 THE CHAIRMAN: You believe in personal income  
10 tax and are strongly against property tax?

11 MR. BEASLEY: Yes.

12 THE CHAIRMAN: Any questions?

13 COMMISSIONER WALLS: You say in paragraph 9:

14 "Income tax is so very real. They see it

15 and it is painful." "It must not be good,"

16 and so on. The same thing would apply, wouldn't it, to

17 retail sales tax as to income tax? It is real. People

18 see it.

19 MR. BEASLEY: I think people see a thing they  
20 want. They are willing to pay any price if they want it  
21 badly enough.

22 COMMISSIONER WALLS: In your decision that  
23 income tax should replace all other taxes and in the  
24 section of your brief you include provincial and municipal  
25 taxes as well - do you realize that that would mean an  
26 increase in income tax of something over 400% if you were  
27 to include all provincial, municipal and federal tax in an  
28 income<sup>tax</sup>? Do you think the people would accept it?

29 MR. BEASLEY: I didn't include the municipal -  
30 provincial and Dominion, but not all municipal. I allowed



5 1 there for property taxation.

2 COMMISSIONER WALLS: You favour property taxation?

3 MR. BEASLEY: Municipalities, yes.

4 COMMISSIONER WALLS: Oh, I see. I understood  
5 that you were opposed.

6 MR. BEASLEY: Income tax should be used as well.  
7 At present it isn't.

8 COMMISSIONER WALLS: Then the municipality would  
9 collect?

10 MR. BEASLEY: Property tax - for a considerable  
11 amount they should put it on income tax.

12 COMMISSIONER WALLS: What percentage would you  
13 take; would you separate school tax in comparison with  
14 general tax?

15 MR. BEASLEY: Keep in general tax.

16 COMMISSIONER WALLS: Keep in general tax?

17 MR. BEASLEY: No, no. I would differentiate  
18 that way. I am not too particular about detail.

19 THE CHAIRMAN: You might assume income tax  
20 would go up three or four times.

21 COMMISSIONER WALLS: Another part is that you  
22 do favour capital gains tax.

23 MR. BEASLEY: Yes.

24 COMMISSIONER WALLS: Would you be willing when  
25 you sell your farm - as I understand a farmer, and I  
26 am a farmer myself - your revenue throughout the years  
27 is comparatively small, but one thing is that your land is an  
28 appreciated asset.

29 MR. BEASLEY: Yes.

30 COMMISSIONER WALLS: When you sell that farm you



6 1 hope then to make sufficient to retire and so on?

2 MR. BEASLEY: Yes.

3 COMMISSIONER WALLS: Would you be willing to pay  
4 capital gains tax?

5 MR. BEASLEY: Yes, if it spread over the years  
6 I have to accumulate it.

7 COMMISSIONER WALLS: Thank you. That is all.

8 COMMISSIONER PERRY: I wondered if Mr. Beasley  
9 has any views of the possible effects of income tax at  
10 three or four times the present rate.

11 MR. BEASLEY: When you place it that way it  
12 looks impossible, but when it is a fact, really, that  
13 point doesn't matter. It really has no effect. It could  
14 look that way to the public without being so. It is not  
15 real.

16 COMMISSIONER PERRY: You suggest there is a very  
17 painful effect here. It might be three or four times as  
18 painful as it is now. It might have an effect on incen-  
19 tive to work, to invest, to carry on any activity in which  
20 income is earned.

21 MR. BEASLEY: Yes. Somebody said the other day  
22 it is only people who pay taxes. It is no one else. You  
23 would be paying the same but the problems would be  
24 different.

25 COMMISSIONER PERRY: It might be the difference  
26 between being eroded with water and banged on the head  
27 with an axe.

28 MR. BEASLEY: The man who is being eroded now  
29 and the other man who is having a good time would be evened  
30 up.



7 1 THE CHAIRMAN: You appreciate that corporation  
2 income would escape taxation until distributed and there  
3 might be an added incentive to corporations to accumulate  
4 rather than distribute.

5 MR. BEASLEY: You could plug that by making them  
6 distribute.

7 THE CHAIRMAN: Have government take over corpora-  
8 tions?

9 MR. BEASLEY: No, not socialism.

10 COMMISSIONER WALLS: Mr. Beasley, it is put down  
2 11 here in the summary of memorandum under 'e' a statement that  
12 is not too clear. You say:

13 "Corporation income tax should be abandoned  
14 except for local purposes."

15 Do you mean federally collected for local  
16 purposes or taxes collected by municipalities?

17 MR. BEASLEY: Local government.

18 COMMISSIONER WALLS: You mean municipalities  
19 would collect corporation tax?

20 MR. BEASLEY: Yes, on the services it is  
21 receiving, you see.

22 COMMISSIONER WALLS: One argument in favour of  
23 consumption tax that is always put forward is the fact they  
24 are not imposed on income which is saved; they are  
25 imposed on spending and therefore they encourage saving  
26 encourage thrift. Does that argument not appeal to you  
27 at all?

28 MR. BEASLEY: I think taxation is for revenue.  
29 It is not for rewarding a person or to club him. It is  
30 purely for revenue. If you want to do other things it is



8 1 another department.

2 COMMISSIONER MILNE: I have one question about  
3 corporation tax and that is: if corporations as such weren't  
4 taxed, wouldn't that discriminate against the small business-  
5 man who wasn't incorporated or the professional person who  
6 couldn't incorporate?

7 MR. BEASLEY: No, I don't think so. I can't see  
8 that it would. I can't see it.

9 COMMISSIONER GRANT: Mr. Beasley, may I refer to  
10 page 7, estate taxes, paragraph 45, and on the top of page  
11 8, paragraph 46.

12 MR. BEASLEY: Yes?

13 COMMISSIONER GRANT: You say:

14 "If there is an argument for breaking up too  
15 large an estate then go at it direct for  
16 that purpose, distribute it, but don't take  
17 a share either, and don't charge for doing  
18 it."

19 Would you elaborate a little on that?

20 MR. BEASLEY: Yes. You don't want to get revenue  
21 that way. It is not an ethical way to get revenue. That  
22 is the basis of it. It is simply not an ethical way to  
23 get revenue.

24 COMMISSIONER GRANT: Would you put estate tax in  
25 the category of capital gains tax?

26 MR. BEASLEY: Oh, yes. If you want to go to the  
27 person who is receiving it, the individual who received  
28 the estate, you could capital gain. I am optional. I  
29 am not particular.  
30



1 COMMISSIONER GRANT: Whether the tax is paid by  
2 the successor or the estate ---

3 MR. BEASLEY: I still think it isn't ethical.  
4 I would let him have the income and get it on income tax.

5 COMMISSIONER GRANT: You are opposing estate  
6 tax?

7 MR. BEASLEY: Yes.

8 COMMISSIONER GRANT: Although you favour a tax  
9 on capital gains?

10 MR. BEASLEY: Capital gains otherwise, but not  
11 from an estate.

12 THE CHAIRMAN: I just have one more question here.  
13 You are dealing with income tax, paragraph 8, and suggest  
14 that an individual should pull his share of government  
15 expense. One of the great difficulties is to measure the  
16 strength. Do you suggest an income of \$10,000 is twice  
17 as strong as an income of \$5,000?

18 MR. BEASLEY: No, graduated income tax. I  
19 believe in graduation.

20 THE CHAIRMAN: So, in fact, \$10,000 would  
21 probably have more than double the pull of \$5,000?

22 MR. BEASLEY: Yes, yes, yes.

23 THE CHAIRMAN: You are in favour of graduated  
24 income tax?

25 MR. BEASLEY: Yes.

26 THE CHAIRMAN: Progressive taxation of income?

27 MR. BEASLEY: Definitely.

28 COMMISSIONER WALLS: In regard to paying tax,  
29 Mr. Beasley, you are quite critical of the wage-earner  
30 having to have his tax deducted monthly. Have you



101 questioned wage-earners as to their feeling; about that?

2 MR. BEASLEY: No, I don't need to. I don't feel  
3 it is necessary to know their feeling. If they don't know  
4 - I don't think I should be a party to taking that from  
5 him in that way.

6 COMMISSIONER WALLS: Don't you think it is  
7 possible they prefer to do it that way rather than facing  
8 up to one lump sum?

9 MR. BEASLEY: Make it optional, that is fine.

10 THE CHAIRMAN: Have you any more questions?

11 COMMISSIONER PERRY: I am just wondering whether  
12 Mr. Beasley's objective is to keep people in a constant  
13 sense of awareness of the cost of government, constant  
14 sense of irritation.

15 MR. BEASLEY: It would be only once a year.

16 COMMISSIONER PERRY: Or whether it is the other  
17 objective of giving them a good idea once a year of just  
18 what government is costing them and once he does have the  
19 idea what would you expect him to do about it?

20 MR. BEASLEY: I hope he would influence some of  
21 the spending on the part of government.

22 COMMISSIONER PERRY: Your feeling is he would  
23 have a better appraisal of what government was costing  
24 him and just might act a little more intelligently towards  
25 it?

26 MR. BEASLEY: Yes.

27 THE CHAIRMAN: I think I understand Mr. Beasley's  
28 point of view: all taxes are raised out of people. They  
29 have to be raised in some proportion, one against the  
30 other and he believes this proportion is achieved under



11 1 income tax rather than a mixture of taxes.

2 A lot of people believe Mr. Beasley's point of  
3 view is a valid one.

4 COMMISSIONER PERRY: He has nearly all the  
5 authorities on his side.

6 THE CHAIRMAN: Any further questions? We under-  
7 stand what you put before us, Mr. Beasley. Thank you  
8 very much indeed. We will consider it. We are grateful  
9 to you for appearing today. It is very helpful for us to  
10 have people like yourself come before us and state  
11 their views. Mr. Secretary, is there any further business?

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R/dpw 1 THE SECRETARY: One from Mr. A.F. Henshaw, of  
2 Trail, B.C., submitted to the Head Office of the Commission  
3 on February 4th. I enter it into the record as Exhibit  
4 No. 119.

5  
6 --- EXHIBIT NO. 119: Submission of Mr. A.F. Henshaw,  
7 Trail, B.C.

8 THE SECRETARY: One from Mr. E. Langemann of  
9 Burnaby, which was submitted on the 18th of February, and  
10 I now enter as Exhibit 120.

11  
12 --- EXHIBIT NO. 120: Submission of Mr. E. Langemann,  
13 Burnaby, B.C.

14  
15 THE SECRETARY: One from Dr. Edwin M. Meade,  
16 submitted on July 16th, which I now enter into the record  
17 as Exhibit No. 121.

18  
19 --- EXHIBIT NO. 121: Submission of Dr. Edwin M. Meade.

20  
21 THE SECRETARY: All these were local briefs,  
22 Mr. Chairman, where the persons could not be present this  
23 morning.

24 I also would like to enter into the record as  
25 Exhibit No. 122, a submission of the Retail Merchants'  
26 Association of Canada, the Maritimes Division.

27  
28 --- EXHIBIT NO. 122: Submission of the Retail Merchants'  
29 Association of Canada, Maritimes  
30 Division.



21 THE SECRETARY: You will recall, Mr. Chairman,  
2 that unfortunately, due to some delay in the mails, this  
3 did not reach us in time in Halifax to enter it at that  
4 point. That is all until tomorrow, sir.

5 THE CHAIRMAN: Thank you, Mr. Secretary. We  
6 stand over until 9.30 tomorrow morning.

7 THE SECRETARY: At which time The B.C. Beef  
8 Cattle Growers' Association will appear before you, sir.

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10 --- Adjournment  
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# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT

Vancouver, B.C.

VOLUME No.:

DATE:

35

August 13, 1963

OFFICIAL REPORTERS  
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MR/dpw 3

ROYAL COMMISSION ON TAXATION

Hearing held in Room 305,  
Vancouver Public Library,  
750 Burrard Street,  
Vancouver, British Columbia,  
on the 13th day of August,  
1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

-----



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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF VANCOUVER, BRITISH COLUMBIA.

August 13, 1963

TOPICAL INDEX

VOLUME No. 35

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a ) <u>INTRODUCTION:</u>		
	Opening remarks of the Chairman	229I
( b ) <u>Submission: Of</u>		
	<u>The B.C. Beef Cattle Growers' Association</u>	229I
3	Business Income Taxation- Capital Cost Allowances.	2318 - 2322
5	Business Income Taxation- Incentive Measures.	2319 - 2322
II	Business Income Taxation- Specific Industries.	229I - 2325
2I	Estate Taxes, Gift Tax.	2317, 2318 2322 - 2324
49	Tax Administration	2324, 2325
( c ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	229I - 2293
	Nature and composition of the Association, whom it represents, its purposes and functions.	229I, 2292
	A reference and explanation of the meaning ( Basic Herd ) how originated, the purpose it serves.	2294, 2295, 2299
	A point, that, the Basic Herd while provided for by the Tax Department is not in the Income Tax Act; or regulations, merely referred to on a Tax Department form for the application to establish a "Basis Herd"	
	Some points of view advanced in respect thereto.	2295, 2296 2307 - 2312
	A question as to what goes into the Income Account, what is done to make a profit ? The method employed to differentiate between Capital and Cattle Sales for Income, the exemplification of.	2296 - 2303
	A reference to page 3 of the brief, the paragraph relating to establishment of a fair market value, the basis used in the determination of, and the problems of establishing uniformity.	2303, 2304, 2313 - 2316



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The B.C. Beef Cattle  
Growers' Association

August 13, 1963

Volume No. 35

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( c )	<u>SPECIFIC DISCUSSIONS: ( continued )</u>	
	An explanation of the classification of cattle, the purpose of.	2303, 2315
	A question of the economics of increasing a "Basic Herd" from a ranchers' own stock that is raised on his ranch or farm. The basis, and determination of as is presently employed.	2305, 2306, 2316
	A question set forth in essence as to how the determination of Cattle Sales or the dispersal Sales are arrived at, how are they classified between Capital and Income Sales? An explanation of the basis used and the problems encountered.	2306, 2307 2311, 2312
	A reference in respect to the use of a standard value for each head of Cattle for accounting and Balance Sheet purposes, the tax assessors' method of treating valuations and the taxable Income aspect of the problem.	2312, 2313
	A question of what the most common circumstance would be in which a "Basic Herd" would be reduced? Some viewpoints and reactions to the question.	2316, 2317
	A reference to Estate planning in relation to reduction of "Basic Herds" as a consequence of deceased ranch owners' or interests. Some discussion of the point raised and the proposal of a provision in respect to the subject matter of Estate Taxation as a relief from forced disposal.	2317, 2318 2322 - 2324
	A reference and question relative to use of production Incentives as opposed to the present basis of depreciating Ranch or Farm Capital Expenditures under existing regulations.	2318 - 2322
	A reference to reflections cast upon the employees or assessors of Taxation offices in the performance of their duties. a general concise review of the statements contained in the brief.	2324, 2325
	Closing remarks of the Chairman.	2325, 2326



August 13, 1963

Volume No. 35

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( d ) <u>Submission: Of</u>		
	<u>Mr. C.E. Scanlan, Professional Engineer.</u> <u>North Vancouver, B.C.</u>	2326
	Opening remarks of the Chairman	2326
27	Incidence of Taxation and Income Distribution.	2327 - 2331
30	Municipal Taxation	2327 - 2331
( e ) <u>SPECIFIC DISCUSSIONS</u>		
	A reference and point raised in respect to subsidies as provided by Government measures, Agriculture v/s Manufacturing Industries. A few comments relative to the point in question.	2327, 2328
	A presentation of matters dealing with education, the basis presently in use to provide the necessary revenue to defray the cost of educational services and the increas- ing burden on property owners to provide such revenue through municipal assessments. A few suggestions offered to alleviate the direct burden imposed on the taxpayer. The reaction to the proposals.	2327 - 2331
	Closing remarks of the Chairman	2331
( f ) <u>Submission: Of</u>		
	<u>The Corporation of the Township</u> <u>of Langley, B.C.</u>	2332
	Opening remarks of the Chairman.	2332
4	Business Income Taxation- General Concept of Business Income.	2339 - 2341
27	Incidence of Taxation and Income Distribut- ion.	2333, 2337 2347
30	Municipal Taxation	2334 - 2339 2343 - 2350
33	Personal Income Tax - Capital Gains	2341



The Corporation of the  
Township of Langley, B.C.

August 13, 1963

Volume No. 35

( Titles )	Description	Page
( g )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2332 - 2234
	A reference to the location and district represented by The Township of Langley in the province of British Columbia.	2332, 2333
	A reference to the situation and problems now imposed on Municipal Governments in obtaining sufficient revenue to function properly, the necessity of a portion of responsibilities being borne by Provincial and Federal Governments. A general review of the problems confronting the Municipalities, the arguments presented. The viewpoints and reaction to the problems as submitted.	2334 - 2339 2342 - 2349
	A few points in respect to Capital Gains.	2339 - 234I
	A reference to educational costs and related taxation of property owners to provide revenue to defray the cost burden of.	2349, 2350
	Closing remarks of the Chairman.	2350, 235I
( h )	<u>Submission: Of</u>	
	<u>Mr. V.E. Nordlund, Vancouver, B.C.</u>	235I
	( A retired Schoolteacher )	
	Opening remarks of the Chairman	235I, 2352
34	Personal Income Tax- Deductions	2352 - 2360
( i )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2352, 2353
	The subject of personal Income Tax inequalities relative to tax exemptions for members of religious orders, a reference to Section 27(2) of the Income Tax Act; covering exemption from taxation of members of a religious who have taken a vow of perpetual order poverty. The contentious points voiced in respect to these members being in receipt of income indirectly which should be taxed. The discriminate views expressed and the basis of the complaint.	2353 - 2360
	Closing remarks of the Chairman.	2360, 236I



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V

August 13, 1963

Volume No. 35

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( j ) <u>Submission: Of</u>		
	<u>Mr. Ralph E. Browne, Vancouver, B.C.</u>	236I
	Opening remarks of The Chairman	236I, 2362
35	Personal Income Tax - Exemptions and Allowances.	236I - 2365

( k ) SPECIFIC DISCUSSIONS:

The subject, a problem of old age people and pensioners in respect to tax exemptions and allowances requested beyond the statutory regulations. Some reasons presented in support thereof. The reaction to the points raised, and a comparison of an employed taxpayer and the pensioner with identical income. An exemplification of transferring the burden to others, a viewpoint on the need for larger pensions to solve and improve the old age standard of living in lieu of suggested increased tax exemptions.	236I - 2365
Closing remarks of the Chairman.	2365

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
I23	Brief of The B.C. Beef Cattle Growers' Association.	229I
I24	Brief of Mr. C.E. Scanlan, North Vancouver, B.C.	2326
I25	Brief of The Corporation of the Township of Langley, B.C.	2332
I26	Brief of Mr. V.E. Nordlund, Vancouver, B.C.	235I
I27	Brief of Mr. Ralph E. Browne, Vancouver, B.C.	236I
I28	Submission of Mr. S.A. Benah	2365
I29	Submission of Colonel F.H.M. Codville, Duncan, B.C.	2366
I30	Submission of The Convention of Baptist Churches of B.C.	2366



1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, it is now 9.30.

3 We might commence.

4 THE SECRETARY: Good morning, Mr. Chairman,  
5 Commissioners. The first brief this morning is being  
6 presented by The B.C. Beef Cattle Growers' Association.  
7 Mr. Gerard Guichon, past-President of the Association is  
8 here to speak to the brief and associated with him is the  
9 tax advisor to the Association, Mr. A.D. Russell of Price-  
10 Waterhouse, Vancouver.

11 I would like to enter this brief into the record,  
12 Mr. Chairman, as Exhibit 123.

13  
14 --- EXHIBIT NO. 123: Submission of The B.C. Beef Cattle  
15 Growers' Association.

16  
17 SUBMISSION OF THE B.C. BEEF CATTLE

18 GROWERS' ASSOCIATION

19 Appearances: Mr. G.F. Guichon  
20 Mr. A.D. Russell

21 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
22 morning, Mr. Guichon, Mr. Russell. We have read your  
23 submission, with considerable interest I might say. I  
24 must warn you we carry our own farm experts in this Commis-  
25 sion. They discussed this with a great deal of interest.  
26 I don't know whether they can fully understand it, but  
27 they understood when they started to read it. Would you  
28 tell us a little bit about your Association?

29 You are an affiliation of 22 local stockmen  
30 associations, and these associations are made up of persons  
31 who own cattle to a minimum of 1,000 heads; is that correct?



A3 1 MR. GUICHON: No, Mr. Chairman. The individual  
2 Association that is formed - the membership of the British  
3 Columbia Beef Cattle Growers have a minimum - the associa-  
4 tions themselves have to have a minimum of 1,000 cattle.  
5 The individual member can have as small a number as he can  
6 have.

7 The membership is actually something in the  
8 neighbourhood of about 1,200 people, individual ranchers.  
9 The associations who make up the membership of the British  
10 Columbia Beef Growers pretty well take in all the beef  
11 cattle producers of the Province of British Columbia. Our  
12 member associations in the north are the northerly part of  
13 the Peace River, right down through to the southern part of  
14 British Columbia, the southern interior cattle associations.  
15 We have the Coast Cattlemen Association here on the coast  
16 as a member.

17 The brief was made up by our Tax Committee of  
18 Directors of our Association on the advice received from,  
19 or resulting from the answers to the questionnaire to all  
20 our members on their various tax problems over the course  
21 of the year. A lot of our advice, of course, came through  
22 from tax advisors to individual members who had had parti-  
23 cular problems.

24 Mr. Russell, of Price-Waterhouse, has several  
25 clients, members of our Association. His advice was used.  
26 There are other chartered accountants. Mr. Wolfe Jordan  
27 of Kamloops has quite a number of cattlemen clients in the  
28 province.

29 When this information all came in, when the  
30 questionnaire came in, when sufficient answers were



A4 1 received, the office put the whole thing together. On the  
2 advice of Mr. Russell and Mr. Jordan they drew up this  
3 brief that is presented to you today.

4 Now, I feel that - we have asked Mr. Russell to  
5 be here with me today to explain the principal parts of  
6 the brief, and if there is any other question you would  
7 like to have on the make-up of the organization, I would  
8 be quite happy to try and answer it. The B.C. Beef Cattle  
9 Growers, in turn, are a member of the Canadian Council of  
10 Beef Producers which is pretty well Canada-wide.

11 We are also an associate member with the British  
12 Columbia Federation of Agriculture, who, in turn, are  
13 associated with the Canadian Federation of Agriculture.

14 With your permission, sir, I would ask Mr.  
15 Russell to go on to explain the different parts of the  
16 second and next paragraphs of the brief.

17 THE CHAIRMAN: Thank you, Mr. Guichon. There is  
18 no need to stand unless you wish to do so.

19 MR. GUICHON: Thank you.

20 THE CHAIRMAN: We would be very glad to hear any-  
21 thing Mr. Russell cares to say. We have questions, of  
22 course, and we would like to address them to you both.

23 This is the first time this Commission has  
24 discussed the matter of basic herd and we may not be just  
25 as familiar with the techniques of it as we are with some  
26 other parts of the Act, although I think a couple of our  
27 members are fairly familiar with basic herds.

28 Mr. Russell, would you like to say anything to  
29 us before we start asking questions?

30 MR. RUSSELL: Thank you, Mr. Chairman. The first



A5 1 item mentioned in the brief is basic herd and we would like  
2 to try, in a very brief time, to explain it. This is one  
3 of the most difficult things to explain.

4 I think, to put it briefly, and as simply as  
5 possible, basic herd is a device which was invented by the  
6 Department about 15 years ago to permit the interpretation  
7 of a cattle ranch, or the placing of certain of the cattle  
8 in the ranch as a fixed asset. Normally you look at  
9 cattle as a flowing inventory. They are born, they are  
10 fed, they get fat. When they are fat enough, and the  
11 price is right, they are sold on the market, but a substan-  
12 tial part of the herd is deemed to be a capital asset, or  
13 a manufacturing plant, in effect.

14 Now, the trouble is that the animals which would  
15 seem to be in the cattle herd, or in a basic herd, flow  
16 along. As they grow up, they get older, they are sold.  
17 The main advantage to any rancher of a basic herd, I would  
18 say, is that if there is a dispersal sale, if the whole  
19 herd is sold to someone else, then the profit realized on  
20 what is deemed to be the basic herd, or the manufacturing  
21 plant is deemed to be capital profit and is not subject to  
22 taxes.

23 The basic herd, from a Tax Department standpoint,  
24 is a number of animals. It is a thousand animals or twelve  
25 hundred animals, or whatever it is, and its cost is what it  
26 cost that ranch to acquire them in the first instance; if  
27 he bought his whole herd or if he inherited it through an  
28 estate.

29 Provision is made to increase a rancher's basic  
30 herd by going through certain calculations with the



Department and sometimes paying up some additional tax, he can increase his basic herd. If he sells his herd down below the number in the basic herd, then his basic herd reduces accordingly.

In other words, a rancher cannot have a basic herd in excess of his actual herd so that if a basic herd is established at a thousand animals, and the rancher sells off down to 800, then the two hundred that he has sold below his basic herd are deemed to be a sale of the capital asset and profit thereon is not taxed. It is deemed to be a capital gain and not subject to tax.

There obviously, of course, will be a lot of complicated variations to this because one further complication is the herd is expressed in terms of mature animals. A mature animal is any animal two years old, or more, so that any animal in a herd less than two years old is deemed to be only worth half. If you have a total herd of a thousand, and 200 of those animals are less than two years old, they are taken two for one and the basic herd is 900.

From an accountant's standpoint, and a rancher's standpoint, in dealing with the Tax Department, one of our contentions has been all along that the basic herd while provided for is not in the Income Tax Act and is not in the regulations. The only place it is is printed on the back of this form (indicating) which is the form printed by the Tax Department to provide for the application to establish a basic herd.

COMMISSIONER GRANT: May I have a look at that, please?

MR. RUSSELL: Yes. I think it is the feeling of



A7 1 the Association and the other accountants, it would be  
2 very helpful if basic herd regulations were promulgated in  
3 such a form that they would have the force of law.

4 We have suggested repeatedly in the past years  
5 that this could best be done by regulation rather than by  
6 legislation because, as you realize, if it goes into legis-  
7 lation then the mechanics for adjusting it - if something  
8 is found inequitable or unjust or discriminatory - the  
9 process is very slow. Regulations can be changed much  
10 more readily.

11 THE CHAIRMAN: Would you tell us what goes into  
12 the income account? There is a debit or a credit. So far  
13 the transactions you have described are capital trans-  
14 actions. What do you do to make a profit, or how do you  
15 make a profit?

16 MR. RUSSELL: Into the income account go all the  
17 sales of cattle made by a rancher and charged against that  
18 are all the costs of operating his ranch for the year.

19 THE CHAIRMAN: All sales of capital ---

20 MR. RUSSELL: All sales of cattle.

21 THE CHAIRMAN: Those which are decreasing the  
22 herd?

23 MR. RUSSELL: No. Of course, you must realize,  
24 Mr. Chairman, some ranchers are corporations and some are  
25 individuals. Some are on a cash basis.

2 26 THE CHAIRMAN: You misunderstood me.

27 MR. RUSSELL: All the sales, from an accounting  
28 standpoint, all the sales of cattle, animals, go into the  
29 income account. All cattle that are sold.

30 THE CHAIRMAN: You said the basic herd decrease



AS 1 is deemed to be the sale of a capital asset?

2 MR. RUSSELL: That is true.

3 THE CHAIRMAN: And this is the sale of cattle.

4 MR. RUSSELL: That is right.

5 THE CHAIRMAN: So there are certain sales which  
6 do not go into the income account. They are deemed to be  
7 a capital transaction.

8 MR. RUSSELL: Yes, in effect, but in practice  
9 what happens is, all sales go into the income account, and  
10 then an adjustment is made when you file your tax return,  
11 to make a computation of profit that you made on any cattle  
12 that are sold out of the basic herd.

13 THE CHAIRMAN: That is what I do not understand.  
14 When I talk about going to the income account, I mean  
15 your income. I am not talking about the bookkeeping trans-  
16 actions which are used to get at the result. What I am  
17 trying to ascertain is just how does a man use the basic  
18 herd to arrive at his profit or loss for the year? You  
19 say all sales of cattle go into the income account,  
20 provided that they do not use the basic herd. Fine, I  
21 understand that. That is correct, isn't it?

22 MR. RUSSELL: That is correct. Of course, the  
23 accounts are not kept, where you have a basic herd, put  
24 that on one side and then you have cattle in excess of that,  
25 you have them in another group. When the cattle are sold,  
26 you don't know whether they are out of the basic herd or  
27 not. You don't know until the end of the year, and then  
28 you compute your inventory and find out how many cattle are  
29 left in your basic herd.

30 THE CHAIRMAN: That is the bookkeeping mechanics.



A9 1 I accept that.

2 MR. RUSSELL: Theoretically, if I understand  
3 your question, sir, all sales of cattle, so long as they  
4 do not deplete the basic herd, go into income account.  
5 Sales of cattle which do eat into the basic herd are for  
6 capital account and, in effect, do not go into the income  
7 account insofar as tax is concerned.

8 THE CHAIRMAN: When the basic herd is reduced,  
9 it stays reduced until it is increased and the increase is  
10 subject to certain rules?

11 MR. RUSSELL: That is right.

12 THE CHAIRMAN: This is a deliberate action.

13 MR. RUSSELL: Yes. The basic herd can be  
14 increased at a later date by the payment of tax on that  
15 increase.

16 THE CHAIRMAN: That is something I do not under-  
17 stand, but we will come to that.

18 COMMISSIONER MILNE: Will Mr. Russell repeat  
19 here: the basic herd cannot be less than the original appli-  
20 cation. What are the provisions there? I have it written  
21 down: the basic herd may be increased but I think that you  
22 said it could not go below a certain level.

23 MR. RUSSELL: No; I think what I said, Mrs.  
24 Milne, was that the basic herd cannot be more than your  
25 actual herd.

26 COMMISSIONER MILNE: Yes, but the provision is  
27 possible by payment of taxes that it may be increased to  
28 a larger number.

29 MR. RUSSELL: Either to the actual herd or part-  
30 way to the actual herd.



COMMISSIONER MILNE: Did you make a comment that

it may not be lower than the original application?

MR. RUSSELL: No.

COMMISSIONER MILNE: I must have misunderstood you.

MR. RUSSELL: In other words, if cattle are sold, which bring the herd down below the basic herd, the basic herd is automatically reduced.

COMMISSIONER MILNE: I see. I understand.

MR. RUSSELL: And they can stay at that reduced figure, regardless of how high that herd goes. In other words, it is not always to the advantage of a rancher to increase his basic herd even if he can.

COMMISSIONER GRANT: He makes application, in the first instance, for a basic herd?

MR. RUSSELL: Yes.

COMMISSIONER GRANT: And he completes, let us say, part one, and he is going to list there his registered male animals and those registered female animals. Those registered male animals - that is the bulls - part one of the basic herd application, it is filled in, if you are working on a cash basis.

Now, say he has a thousand head of cattle. Therefore, he has, say, X number of bulls. Let us say he has 15 bulls, and that he has 200 cows, registered cows, and the rest is composed of beef or steers or cows. He is not going to register - he is only going to register those animals which he is going to use, really, for reproduction.

MR. RUSSELL: In the original instance, I think,



All 1 in 1947, when this was created, I think most ranchers in  
2 British Columbia applied for a basic herd for their entire  
3 herd at that time, which would be their bulls, cows, calves,  
4 yearlings; the whole thing.

5 I don't think there is the same activity in  
6 registered cattle in British Columbia as there might be in  
7 Eastern Canada because here they are mainly grown for  
8 eventual sale for beef cattle.

9 COMMISSIONER GRANT: But it is true that when a  
10 man starts off his farming operation, he already has a  
11 sizeable farm, a sizeable beef cattle operation. At the  
12 time the basic herd provision came into operation, he  
13 might just as well put them all in?

14 MR. RUSSELL: Yes.

15 COMMISSIONER GRANT: It's a different thing if  
16 he is establishing a farm today, isn't it? If he is  
17 starting from scratch, say, he goes out and buys a bull  
18 and ten cows. He is going to start that as his basic herd.  
19 Is he going to keep adding to his basic herd, or treating  
20 the increment from that as income?

21 MR. RUSSELL: That is a choice he has as he goes  
22 along. I would think that normally, until he got his herd  
23 built up to what figure was the maximum reasonable herd  
24 which the land he owned would accommodate - as you know,  
25 certain ranches will accommodate so many head of cattle.  
26 Beyond that it is uneconomic to run more cattle. When he  
27 builds his herd to the point where he has got all the  
28 cattle his ranch will handle, normally he would build up  
29 his basic herd to that figure. If he buys cattle - a man  
30 starting a ranch today - that would be where he would build



12 1 up his herd to start with. He would buy the basic herd.  
3 2 Then he cannot charge the cost of those animals to income  
3 account. He charges those to capital account and builds  
4 up his basic herd. He can increase the basic herd and  
5 that is the way, when he is acquiring a ranch, and building  
6 it up by charging the cost of those cattle. ---

7 THE CHAIRMAN: The difference between the cost  
8 of the average per-head price received from a mature  
9 animal sold in the taxation year is carried to the income  
10 account. This increase in the herd, as you say, is not  
11 the cost which is applied to the increase in the herd, it  
12 is another figure. You have also said that you have to  
13 pay certain taxes when you increase the herd. Taxes are,  
14 I would assume, based on the profit or loss which results.

15 The difference between the cost of the animals,  
16 if there is a cost, or there may be natural increase, and  
17 the value as put into the herd under the form that you  
18 speak of; is that right?

19 MR. RUSSELL: Largely, yes. However, if you buy  
20 animals and increase your basic herd, then the entire  
21 cost, if you are increasing your basic herd, the entire  
22 cost must be charged to capital because of that, and not  
23 into your income account. However, if your herd increases  
24 by reason of natural increase, and births, and so on, then  
25 the value of that sold must be brought into income account  
26 in order to have the number of those cattle which increased  
27 your basic herd.

28

29

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B/PB/dpw 1

THE CHAIRMAN: That is not what I said. Thank  
2 you very much. You have straightened me out. I was under  
3 the impression when you bought cattle you still increased  
4 the basic herd at the valuation stated. You increase the  
5 basic herd at the cost of cattle you buy.

6 MR. RUSSELL: That is right.

7 THE CHAIRMAN: When you come to sell cattle you  
8 bring that into income only until you reduce the basic  
9 herd, and when you reduce the basic herd it is a capital  
10 transaction.

11 MR. RUSSELL: That is right.

12 THE CHAIRMAN: Is it for the full amount you  
13 receive on the sale or is it on the amount the cattle are  
14 contained in the basic herd?

15 MR. RUSSELL: The capital element is the amount  
16 you receive on the sale less, of course, the cost on which  
17 you are carrying those cattle.

18 THE CHAIRMAN: Thank you.

19 MR. GUICHON: Could I just explain there, perhaps,  
20 considering a rancher who has 1,000 head of cattle and of  
21 that 1,000 head I would say roughly 700 would be basic  
22 herd cattle because he still had, say, 250 or 300 a year  
23 which are his income cattle and he is putting in at the  
24 other end from natural increase the equivalent to 300 or  
25 350 head. In other words, on a herd the rancher considers  
26 his whole herd and his basic herd is roughly two-thirds to  
27 three-quarters of the total herd that he has.

28 COMMISSIONER GRANT: He is not going to disturb  
29 this computation very often.

30 MR. RUSSELL: Very seldom.



B2 1 MR. GUICHON: Actually, individual cattle are  
2 changed as they go through that herd.

3 COMMISSIONER GRANT: It is the number.

4 MR. GUICHON: The number.

5 MR. RUSSELL: The basic herd is one figure;  
6 it is 1,000 or 700 or whatever it is. They can't keep  
7 track of the specific animals. This would be impossible.

8 COMMISSIONER GRANT: I think that is what I said  
9 some time ago - the increment that goes into the income.

10 MR. RUSSELL: Mr. Chairman, if the Commission does  
11 understand the basic herd better you may understand the  
12 difficulty of explaining basic herds. It is a most compli-  
13 cated subject and it is very difficult to reduce it to one  
14 straightforward formula because of the various factors  
15 that enter into it; the various ways cattle are kept.

16 COMMISSIONER PERRY: Just for my own thinking,  
17 Mr. Russell, can I assume that on page 3, the paragraph  
18 relating to establishment of a fair market value would  
19 just operate where you are increasing your basic herd by  
20 natural growth.

21 MR. RUSSELL: As opposed to purchase, that is  
22 right.

23 COMMISSIONER PERRY: There are two ways of doing  
24 it; one by purchase and one by natural growth. On purchase  
25 it is just cost. This is when you are increasing it by  
26 natural growth. Is this the only implication that this  
27 valuation has? Does it have some other implication for  
28 determining the profit account of that year?

29 MR. RUSSELL: It would have that effect. If  
30 you were increasing your basic herd by reason of an



B3 1 increase resulting from natural growth of your herd the  
2 basis is that you work out the total number of your basic  
3 herd - it goes from 1,000 to 1,100, so you have 100 more  
4 animals in the basic herd. Then the Tax Department  
5 endeavours to bring into income the valuation of these  
6 additional animals. They are suggesting it should be done  
7 on fair market value. It is difficult because the make-up  
8 of your basic herd varies from year to year between bulls,  
9 cows, calves and steers. The contention that fair market  
10 value is the price determined as a result of the sale of  
11 a prime animal that is sold off a ranch each year doesn't  
12 necessarily indicate the average standard of value of the  
13 whole herd. The cattle you sell are the ones you hope  
14 will bring you the best revenue. You sell the largest,  
15 best and fattest steers.

16 THE CHAIRMAN: When you say same class and kind,  
17 just how many classes and kinds would there be?

18 MR. RUSSELL: May I refer that to Mr. Guichon?

19 THE CHAIRMAN: Roughly. Are you talking about  
20 one, two, three?

21 MR. GUICHON: Bulls, cows, steers.

22 COMMISSIONER PERRY: Calves.

23 MR. GUICHON: Heifers and calves.

24 MR. RUSSELL: Two-year age group of heifers,  
25 yearlings and two years.

26 THE CHAIRMAN: Ten or twelve would take care of  
27 that.

28 COMMISSIONER GRANT: Those that have calves by  
29 their side.

30 THE CHAIRMAN: Thank you.



COMMISSIONER GRANT: Before leaving this subject

would you enlighten me on the economics of increasing your basic herd from your own stock that is raised on the farm or the ranch? You have started off - you have made application for registration of basic herd under which you put on the list so many males, so many females. You are not going to include in that basic herd what you think is going to be the ordinary turn off of the year and then you get to the point where you say, "I think this operation is such that I should increase my basic herd." You increase it in one of two ways: either by going out and purchasing animals, or by increasing it from your own herd. Do you make any application; and if you add to your basic herd by going out and purchasing an animal you don't claim that as a deduction, - and if you add to your basic herd from your own herd the sale price of that <sup>animal</sup> is included in your income for that year so that you, in fact, are paying tax on this animal at that time but you are not going to pay any tax on them when it is sold.

MR. RUSSELL: Following from that, Mr. Grant, at the time you decide to increase your basic herd the market value is quite high. It wouldn't be to your advantage to increase because you would pay tax in buying and eventually when you sold the animals, if you had a complete dispersal sale, the sale price you got eventually might be less than the value at which you paid tax when you put those animals in. You would sustain a capital loss on your dispersal sale unless you have the opportunity to increase the basic herd at the time when the market value is relatively low. It wouldn't be to your advantage to



B5 1 do it.

2 COMMISSIONER GRANT: Here is another question  
3 which, to me, is interesting: if you reduce your basic  
4 herd by so many animals in a given year but it is not by  
5 way of dispersal sale, just by way of ordinary sale, and  
6 it included, let us say, a bull at a handsome price, let  
7 us say at \$20,000, do they know that the bull is included  
8 in your basic herd? Is there any difference in the  
9 purchase price when you are reducing your herd but not a  
10 dispersal? If it were dispersal it would be a capital  
11 gain. If it were partial dispersal would it still be  
12 capital gain?

13 MR. RUSSELL: I would think so.

14 COMMISSIONER GRANT: How would you convince the  
15 tax authorities that the animal was in your basic herd  
16 because he is not identified? He might be identified on  
17 the rancher's books but he is not identified by the Depart-  
18 ment in the application.

19 MR. RUSSELL: I would think you would have that  
20 problem with the Department. These are the things that  
21 occur which are not covered in the regulations as they are  
22 printed on that form. As you say, animals are not identi-  
23 fied in the basic herd. It is basic herd as the total and  
24 one figure, say, 700 animals at a total cost of a total  
25 figure. When there is a reduction I would think that  
26 would be considered just the same as if a steer was sold  
27 of the 250.

28 COMMISSIONER GRANT: Income.

29 MR. RUSSELL: If it did reduce your basic herd  
30 you would have a capital element as a result of the profit



B6 1 on that sale.

2 COMMISSIONER GRANT: It might not be a steer.  
3 It might be a cow and might bring a fine price and the  
4 rancher would say this doesn't come into income; it is  
5 part of my basic herd.

6 THE CHAIRMAN: I think Mr. Grant has put his  
7 finger on a loophole. Couldn't one manoeuvre one's trans-  
8 actions in circumstances like that so if there was a very  
9 lucrative sale of a prize animal it could be manoeuvred  
10 as to put it into a reduction of basic herd by reducing  
11 the herd in that year?

12 MR. RUSSELL: Except that would involve the sale  
13 of sufficient other cattle to bring your herd down below  
14 the basic herd so there was a disposal of the basic herd.

15 COMMISSIONER GRANT: It would be predicated.

16 MR. RUSSELL: It would require a number of other  
17 cattle to be sold.

18 THE CHAIRMAN: You would have to arrange your  
19 affairs to reduce the herd.

20 MR. RUSSELL: You might have 1,500 and 1,000 in your  
21 basic herd and it wouldn't be economical to sell another 500 to  
22 avoid capital gain on one bull.

23 COMMISSIONER GRANT: It could happen in a very  
24 small operation.

25 MR. RUSSELL: Yes. It is from the difficulty  
26 of permanent regulations which would cover this that we  
27 run into trouble and each case has to be settled on its  
28 own.

29 THE CHAIRMAN: Getting to your submission, you  
30 request this be more formalized, made more formal than it



B7 1 is now where it is merely on the back of the form; you  
2 would either like law or Order in Council.

3 MR. RUSSELL: Preferably regulations. I might  
4 say since this brief was submitted a regulation has come  
5 down, 18-02, which deals with the inventory valuation of  
6 animals which has been quite helpful but still we await  
7 more clarification by the Department officials themselves.

8 THE CHAIRMAN: Regulations in respect to basic  
9 herds?

10 MR. RUSSELL: No, sir; regulations under Part 18  
11 that deals with valuation of inventory. Up to now inven-  
12 tory could either be at cost or on market, or cost on  
13 market. There is a regulation dealing with the valuation  
14 of cattle.

15 THE CHAIRMAN: Does this conform to what you  
16 require - not wholly but partly?

17 MR. RUSSELL: Yes, it does insofar as valuation  
18 is concerned. It doesn't deal with basic herds at all.

19 THE CHAIRMAN: If we had these things you  
20 just spoke of, does this treatment really justify a formal  
21 approach? Would the more formal approach such as regula-  
22 tions by Order in Council not cause you more difficulty  
23 than you presently are conscious of? You have regulations  
24 and the Department is pretty well bound to follow the  
25 regulations.

26 MR. RUSSELL: That is true. However, the feeling  
27 is, we have nothing on which we can go in our discussions  
28 with Department officials.

29 THE CHAIRMAN: Are you not happy with the oppor-  
30 tunity to negotiate with the Department more or less in a



B8 1 vacuum where you are not bound by the rules? Some people  
2 are and some people are not, depending on what you are  
3 doing.

4 MR. RUSSELL: Personally, I feel relatively  
5 happy because I think our experience that we have had  
6 with Mr. Guichon and other clients and the Association,  
7 we have had good experience with Department officials.

8 THE CHAIRMAN: Some things, of course, lend  
9 themselves admirably to precise regulations and others  
10 are very difficult.

11 MR. RUSSELL: I think this is one of the  
12 difficult ones.

13 THE CHAIRMAN: If you achieve it it might end  
14 the very happy, flexible regulations you have now got.  
15 I merely suggest that to you to see if it has received  
16 full consideration.

17 MR. RUSSELL: If you don't achieve a happy  
18 solution with the Department officials, having no regula-  
19 tions or anything, then you are limited, you are stopped  
20 at that point. You have no recourse.

21 THE CHAIRMAN: Has there been much unhappiness  
22 because of that - not in your experience, but do you  
23 think there has been elsewhere?

24 MR. RUSSELL: Well, there has been a degree of  
25 unhappiness with the ranchers and the Department, I think  
26 because the Department - some of the Department officials  
27 haven't been very well versed in the interpretation of  
28 these regulations or these directives which we have and  
29 have attempted to assess certain ranchers on a basis that  
30 would be very, very detrimental to their continuing



B9 1 operations, and as a result they have had to make specific  
2 representations and sometimes very costly representations  
3 to the Department and finally they came up with a happy  
4 solution to their problem but at great cost to them.  
5 That is one of the things that a number of our members are  
6 a little disturbed about.

7 MR. GUICHON: B.C., Mr. Carter, has no tax  
8 accountants familiar with ranching, basic herds, and so  
9 on, as in Alberta. There are many more than there are in  
10 B.C. I think you would find the tax accountant in B.C.  
11 that is familiar with the ranching operation would be very  
12 rare.

13 THE CHAIRMAN: I think we meet the cattle people  
14 in Alberta and we shall try and remember to put the same  
15 type of questions and see what they have to say. It would  
16 be interesting to know if they agree.

17 MR. RUSSELL: I trust they confirm our opinion.

18 COMMISSIONER WALLS: I wonder if I could inter-  
19 ject one question in regard to the regulations. Is the  
20 principal concern not the lack of permanence of directives;  
21 in other words, one civil servant could withdraw a direc-  
22 tive and you feel that with regulations you have a chance  
23 to negotiate and that you would have an even greater  
24 chance to negotiate if it were legislation. You say you  
25 prefer regulations. It is not because you are concerned  
26 that just a directive, and there have been very few  
27 directives in the Income Tax Act that have been issued,  
28 that it might be withdrawn without adequate opportunity  
29 for the cattle industry to make representations.

30 MR. RUSSELL: That is very true, Mr. Walls; the



B10 1 lack of permanence in the directives is greater than in the  
2 regulations, and also legislation is more permanent still.  
3 It is more inflexible, as the Chairman points out. It  
4 seems there might be more chance of negotiating in  
5 different ways.

6 COMMISSIONER PERRY: If it was printed in regula-  
7 tion form no one might ever understand it, which has  
8 happened.

9 THE CHAIRMAN: The regulation must reach for a  
10 higher degree of certainty than the directives. It makes  
11 tough drafting.

12 COMMISSIONER GRANT: The information on the  
13 instruction sheet, Mr. Russell, in looking this over, the  
14 only reference made to the price at which an animal will  
15 be valued is under paragraph 7 which says:

16 "The average price of all animals (expressed  
17 in terms of mature animals) sold in the  
18 year in which the basic herd is reduced  
19 shall be used in determining the amount of  
20 capital realization."  
21  
22  
23  
24 -  
25  
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28 -  
29  
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C/MR/dpw 1 The brief is concerned more with the additions, the value  
2 of the animals when added to the basic herd. The basis  
3 of the value of those animals is evidently in another  
4 directive or another ruling.

5 MR. RUSSELL: Another ruling, yes. That is the  
6 only directive I know of.

7 COMMISSIONER GRANT: This one here?

8 MR. RUSSELL: Yes.

9 COMMISSIONER GRANT: Then they follow the same  
10 basis of valuation, if the price is to be determined for  
11 income tax purposes on additions to the herd, as they do  
12 if the price is to be determined for a capital asset in  
13 the event the herd is reduced below the basic herd number.

14 MR. RUSSELL: Yes.

15 COMMISSIONER GRANT: They are the same; they use  
16 the same method of valuation?

17 MR. RUSSELL: Yes. They determine the valuation  
18 on the average sale price of all animals that were sold.  
19 If I might digress for a moment, Mr. Chairman; one occur-  
20 rence that has happened two or three times in the last two  
21 or three years occurred in British Columbia. For accounting  
22 purposes some large companies who operate ranches carry  
23 their cattle on what is known as a standard value; say,  
24 at \$40 a head or \$50 a head. This is for accounting  
25 purposes. This is the value that they carry in the balance  
26 sheet.

27 The tax assessor, in two or three instances,  
28 endeavoured to increase that from a standard value to what  
29 they say is the fair market value of those cattle which,  
30 of course, could be a very material increase; say, 2,000



C2 1 head carried at a standard value of \$50 suddenly being  
2 raised to \$125 or \$150 a head, that would be two or three  
3 hundred thousand dollars of income, which they endeavoured  
4 to tax but at that time by agreement with the Department  
5 that problem was resolved by a Departmental directive or  
6 ruling that the animals in the basic herd could continue  
7 to be valued at this standard value and that the increase  
8 in value would only be attributed to any animals in excess  
9 of the basic herd. This was a common sense solution to the  
10 problem and attracted some more tax against those ranchers  
11 who merely meant to have paid taxes on a profit on the  
12 ultimate sale per the animal so sold.

13 COMMISSIONER WALLS: Another question in regard  
14 to this fair market value; you suggest that where the  
15 rancher has not sold an animal of that type or kind, that  
16 you then take the average price to the nearest market.  
17 That is in your brief, I believe?

18 MR. RUSSELL: Yes.

19 COMMISSIONER WALLS: In an effort towards simpli-  
20 city, would it not be better in all cases where you have  
21 only got about six main markets in Canada to use the  
22 prevailing price at nearest point of market rather than  
23 attempting in each man's case to diagnose what was the  
24 average price he received for his cattle?

25 MR. RUSSELL: You are suggesting that the  
26 average industry price should be used?

27 COMMISSIONER WALLS: At the nearest market. Am  
28 I right there are about six main markets in Canada? In  
29 the interests of simplicity would there be any disadvan-  
30 tage in using that figure which is available at all times,



C3

1 supplied by the Canadian Department of Agriculture as the  
2 average price rather than taking the individual's average  
3 price?

4 THE CHAIRMAN: This is you alternative solution  
5 at the bottom of page 3. Why not make the alternative the  
6 main solution?

7 COMMISSIONER WALLS: That is right.

8 MR. RUSSELL: I think the though behind that  
9 is there could be a substantial variation in prices in  
10 the various markets.

11 COMMISSIONER WALLS: Yes, but if you take the  
12 nearest market, in other words.

13 MR. RUSSELL: In all cases, rather than the  
14 individual rancher's individual price?

15 COMMISSIONER WALLS: I am just wondering for the  
16 sake of simplicity if it would not get away from the  
17 trouble you are having with the tax office if there was a  
18 simpler method of arriving at the average price rather  
19 than using each individuals prices to take the average  
20 price of the nearest market.

21 THE CHAIRMAN: Less transportation cost from the  
22 taxpayer's farm or ranch, which is your formula. You have  
23 stated that here.

24 MR. RUSSELL: Where we haven't got actual sales  
25 of that type of animal in the particular ranch, If we have  
26 actual sales, I do not feel that that would be fair to use  
27 because again prices could vary as between ranchers in the  
28 same area. Administratively it creates an additional  
29 problem.

30 COMMISSIONER WALLS: It seems to me that there



C4 1 is some consideration that might be given for simplicity  
2 of administration by in all cases taking the average price  
3 to the nearest market which is available at all times.

4 THE CHAIRMAN: You wouldn't have much objection  
5 if it were that instead of what you propose, I take it?

6 COMMISSIONER GRANT: If you are going to take  
7 the average price at a given market, what are you going  
8 to take? Is that the average price of cattle that are  
9 sold on that market for beef, or is it cattle for breeding  
10 purposes? If you are putting cattle into the basic herd,  
11 presumably you are going to put them there because they  
12 are good breeding stock and they should bring, on the  
13 average - you know much more about it than I do, but they  
14 should bring on the average, perhaps, 100% higher price  
15 for good breeding stock than they would if sold for beef.

16 THE CHAIRMAN: Does that mean we have instead of  
17 the eight classes which are mentioned, more than the eight?

18 COMMISSIONER GRANT: No, nothing to do with  
19 extending the classes but it does have to do with deter-  
20 mining what is a fair market value for each animal so  
21 classified.

22 MR. RUSSELL: I think our feeling is that if  
23 specific prices can be determined by each individual  
24 rancher, that would be preferable because that is tied in  
25 to his own herd, to the status of that herd.

26 In other words, he might have poor cattle. He  
27 might have very good cattle. A man with poor cattle would  
28 not want his cattle valued, for inventory purposes, on the  
29 basis of an average market which was based on the sale of  
30 very much better cattle.



C5 1 We have one other complication in this connec-  
2 tion, too, and that is that the average price which the  
3 Association determines is a price per pound and a rancher  
4 values his cattle on the basis of so much per head.  
5 We solved that problem, we think quite success-  
6 fully with the Penticton tax office by getting them to  
7 agree to average the animal of a particular ranch at so  
8 many pounds. In other words, steers and cows were  
9 averaged, I think, at 800 pounds, and then the average  
10 price per pound that the Association determined was applied  
11 to so many animals averaging 800 pounds per head.  
12 That again is a compromise and an estimate. It  
13 is a very close estimate but of necessity it had to be  
14 done that way.  
15 COMMISSIONER GRANT: There is nothing too wrong  
16 with that?  
17 MR. RUSSELL: No. It might increase taxable  
18 profits in one year, but correspondingly reduce it in the  
19 next year because there is an inventory adjustment. It is  
20 a matter of when rather than how much and if tax reductions  
21 are consistent, it is not too serious. The profit varia-  
22 tion is not too large.  
23 THE CHAIRMAN: I think we have covered basic  
24 herds.  
25 COMMISSIONER PERRY: I have one or two more  
26 things; I wonder if Mr. Guichon probably could tell us what  
27 the circumstances would be - the most common circumstances  
28 in which a basic herd would be reduced. I can think of  
29 one, and that is you simply need the money. You are  
30 forced to sell; what are the other circumstances?



MR. GUICHON: A feed shortage. It would all

involve around that question of needing the money.

COMMISSIONER PERRY: No one, having in mind the ultimate objective of the provision, would, of his own free will, reduce his basic herd?

MR. GUICHON: No. The cost of settling an estate, a death of a member of the operation, a shortage of feed, a bad winter.

COMMISSIONER GRANT: Drought conditions.

COMMISSIONER PERRY: What I was really getting at, I might as well be frank here, is whether estate planning has extended to the point that you perceive conditions in which you would gradually reduce your basic herd.

MR. RUSSELL: I think that might lead us, Mr. Perry, into another point we make later in our brief where we state that provision might be made in the case of a family ranch which in British Columbia there seems to be quite a few that have been in the family for generations. Mr. Guichon's own ranch is like that. His grandfather started it in 1800. His father carried it on. He has carried it on and now his sons are growing up and they are going to carry it on. These ranches carry on in the family and consist of the major asset in that family. Sometimes in the face of a death, and substantial death duties being payable, suddenly being required to raise a large amount of cash is very detrimental to the continuing operation of this ranch and for that reason one of our suggestions is that provision be put into the Act that in such circumstances, providing no dispersal sale is made



C7 1 to outsiders, that a five-year period be provided for the  
2 payment of death duties.

3 THE CHAIRMAN: Thank you. The next item is  
4 production incentives. You state that certain costs,  
5 fencing, new building, irrigation works, corrals and pens  
6 should be apportioned at 25% to allowable expense and the  
7 remaining 75% to capital assets. At the present time I  
8 presume the whole thing goes to fixed assets and is depre-  
9 ciated, I think you say, 5% a year.

10 COMMISSIONER WALLS: It's 5%, except irrigation  
11 work, which is 10%.

12 MR. RUSSELL: The ranchers have the privilege  
13 of staying on the straight line basis, if they desire it.  
14 They can go to diminishing balance but they can't switch  
15 between the two.

16 COMMISSIONER WALLS: Are most of them on the  
17 straight line?

18 MR. RUSSELL: I think a number of them are for  
19 the reason that under straight line there is no recapture  
20 of a sale.

21 COMMISSIONER WALLS: Basically, isn't your  
22 problem that things such as fences and corrals do not have  
23 a 20-year life, so that a 5% depreciation is not enough?  
24 Would you not solve your problem with a higher rate of  
25 depreciation on things like fences and corrals?

26 MR. RUSSELL: Or alternatively it is compensated  
27 by the allowance for replacement. So long as replacements  
28 are allowed to be written off as an expense. This, I don't  
29 think, was so much to suggest a higher rate of write-off,  
30 rather than an incentive to expand a ranch by clearing



1 additional land so that more cattle could be run on the  
2 ranch. As a result of clearing more land, they have to  
3 build more fences, more corrals, to take care of the  
4 additional cattle you can accommodate.

5 This is a suggested incentive to encourage  
6 such an expansion by allowing a heavier initial write-off.

7 THE CHAIRMAN: We are finding a certain disillu-  
8 sionment with regard to incentives, in industry particu-  
9 larly. We are wondering, and I don't suppose you can tell  
10 us what the effect of such an incentive would be. I have  
11 often thought than allowing incentive to everybody may be  
12 fairly expensive when the pay-off is to seldom effect a  
13 decision. One time out of a large number of times the  
14 return would be very good. If that is the case, it means  
15 a shift of the tax burben, to some extent, without getting  
16 much by way of benefit out of it.

17 There haven't been incentives in your industry  
18 here, I suppose, so you have no experience. Is that  
19 correct?

20 MR. RUSSELL: Not of that nature. The only  
21 incentive that might be considered as such is again the  
22 basic herd, but this is hardly an incentive.

23 THE CHAIRMAN: That is a means of measuring  
24 income, and I would think quite an appropriate means.

25 MR. RUSSELL: As opposed to capital gain. It is  
26 a mechanical device.

27 COMMISSIONER GRANT: There are incentives in the  
28 agricultural field but so far as this brief is concerned,  
29 the beef growers, there isn't. There is in the hog  
30 industry.



C9 1 MR. GUICHON: There are none in the cattle  
2 business.  
3 COMMISSIONER GRANT: In the hog industry.  
4 COMMISSIONER WALLS: You mean a grade incentive.  
5 THE CHAIRMAN: Do you really believe, Mr.  
6 Guichon, that if this provision was written into the Act  
7 that you and your confreres would produce more beef cattle?  
8 MR. GUICHON: That is a question we have got to  
9 ask ourselves and have got to get an answer to. In my  
10 case, an example would be in the interior of British  
11 Columbia we depend a lot on the storage of water. We  
12 generally construct our own reservoir, our own dams.  
13 Well, lately, we are faced with the cost of, say, a \$5,000,  
14 \$6,000 expenditure on construction of that reservoir and  
15 I think personally I would decide in favour of doing more  
16 of that work if every year or so I were allowed to charge  
17 part of that expenditure in income.  
18 THE CHAIRMAN: This would influence your judgment?  
19 MR. GUICHON: Yes, it would. I am sure it would.  
20 THE CHAIRMAN: That is good enough. Then, of  
21 course, the question is to what extent it would influence  
22 it. Would the influence be enough to actually have an  
23 impact, or would you achieve most of it without that?  
24 You may not be able to answer that question.  
25 MR. GUICHON: I would say offhand that the  
26 larger operators, the larger ranch operators in the  
27 province would definitely take advantage of it. It would  
28 be, I would say, 75%, perhaps, of our members who are  
29 small ranch operators who perhaps would not be able to  
30 take any particular advantage of it, but the larger



C10 1 operators definitely would.

2 THE CHAIRMAN: Thank you very much.

3 COMMISSIONER WALLS: To what extent work such  
4 as the building of these dams or in clearing of land, is  
5 done by your own employees and listed as wages? To  
6 what extent are you checked up as to whether that is an  
7 actual improvement to land that should be a capital  
8 expenditure as against showing it as an operating expense?

9 MR. GUICHON: We would not be checked up at all.

10 COMMISSIONER WALLS: You are making an issue of  
11 it here, and I note that there are many places where it  
12 would be difficult to draw a line between what is land  
13 clearing and what is ploughing, one would be expense and the  
14 other a capital improvement; to what extent are you being  
15 checked?

16 MR. GUICHON: We are not, but in the case of a  
17 lot of this work we are not able to have it done by the  
18 actual ranch employees. In the case of a dam, there is  
19 the engineering costs, the material for the sluiceway,  
20 and so on, that runs into a lot of money. Engineering  
21 costs nowadays are required - engineering services are  
22 required by the Water Works Department. Things like that.

23 MR. RUSSELL: Expenditures of that nature  
24 generally drop into the lowest category for rates as far  
25 as depreciation is concerned; dams, and ditches, and so  
26 on. They are deemed to be long-term improvements.

27 COMMISSIONER WALLS: What I was getting to is  
28 you have a section here where you request that land clearing  
29 to be considered as an expense and not as a capital improve-  
30 ment. Now, there is a very narrow line of demarcation as to  
which it is and



C11 1 if it is done by your own men, and it is  
2 charged as wages, to what extent do you run afoul of the  
3 department  
4 income tax/on it being a capital expenditure as against an  
5 expense?

6 MR. GUICHON: Most land clearing and dams would  
7 be done with hired equipment. Would that be the answer to  
8 your question?

9 COMMISSIONER WALLS: It could be.

10 MR. RUSSELL: I don't think we want to commit  
11 ourselves on that. It is always a debatable subject with  
12 a tax assessor what is land improvement and what is depre-  
13 ciation, or what is an expense.

14 THE CHAIRMAN: I think, if you will agree, we  
15 will skip the next one - valuation of inventory - because  
16 you indicate in there that you believe you are reaching a  
17 happy solution. It is an administrative matter.

18 MR. RUSSELL: I think that ties in, sir, to the  
19 fair market value discussion we had.

20 THE CHAIRMAN: Estate taxes?

21 MR. RUSSELL: I mentioned that, I think, a few  
22 moments ago, by suggesting a five-year period of payment  
23 for taxes under certain circumstances would be very bene-  
24 ficial, in certain cases.

25 THE CHAIRMAN: Are you aware of ranches being  
26 sold because of the insufficiency of cash to pay succes-  
27 sion duties?

28 MR. RUSSELL: I am not personally.

29 THE CHAIRMAN: We hear this fairly often, but I  
30 am rather dubious as to whether there is the effect that  
31 people are speaking of. I am inclined to ask the question



C12 1 whether they know anything to support it.

FB/apw 2 MR. GUICHON: I think the evidence could be  
3 gathered that would show, Mr. Chairman, that the widow  
4 left to continue the operation of a ranch, because of lack  
5 of cash and because of the fact that she had to pay out a  
6 lot of cash, she wouldn't be in a position of hiring  
7 competent management, and therefore, and particularly if  
8 you have ready buyers for ranch operations - a lot of  
9 these ranches have been sold; not necessarily as forced  
10 sales but the offers have been so attractive it was such  
11 an easy alternative that the sales were made.

12 MR. RUSSELL: There has been quite a high degree  
13 of activity in purchasing ranches by non-residents for  
14 investment purposes, particularly by U.S. citizens where  
15 there was a decided advantage estate tax-wise to own land  
16 in a foreign country.

17 COMMISSIONER WALLS: Do you feel that that  
18 places an unrealistic value for assessment for estate  
19 taxes?

20 MR. RUSSELL: It does. We have encountered  
21 that with the valuation department in estates.

22 THE CHAIRMAN: Just as a second point, you  
23 that  
24 mention/the valuation should be based on the production  
25 or the income of the ranch. Is that what you are speaking  
26 of now?

27 MR. RUSSELL: Yes, that situation, of course,  
28 is not as prevalent now because of the change in the  
29 American tax law.

30 THE CHAIRMAN: I am sorry.

MR. RUSSELL: Which puts land holdings in foreign



D2 1 countries back into the estate.

2 COMMISSIONER PERRY: It has already had an  
3 observable effect?

4 MR. RUSSELL: Yes. What appears to be a slow-  
5 down in transactions of large ranches.

6 THE CHAIRMAN: That would, by itself, cure  
7 the trouble you speak of?

8 MR. RUSSELL: To a degree, but it could recur.

9 COMMISSIONER GRANT: There is a tax payable,  
10 or course, in Canada on that land. Estate tax is paid.

11 THE CHAIRMAN: Fifteen percent, isn't it?

12 MR. RUSSELL: Fifteen percent. Up until last  
13 year the land wasn't included in the estate, but now it  
14 is. You get your credit.

15 THE CHAIRMAN: Is there anything else on estate  
16 taxation? Moving to general, there is one thing that I  
17 want to speak a little bit about here, and that is the  
18 general statement with regard to the employees or assessors.  
19 I have underlined the words "but rather is a suggestion  
20 that a suspicious, rather than a helpful atmosphere  
21 appears to exist in taxation offices."

22 I think most of us have perfectly normal rela-  
23 tions with tax gatherers. They are persons and they  
24 react sometimes in a generous way and sometimes in a  
25 suspicious way. What is behind this statement? Is it  
26 because in Alberta dealing with ranchers these fellows  
27 have shown an abnormal amount of suspicion?

28 MR. RUSSELL: Personally, Mr. Chairman, I don't  
29 prescribe to this theory. I don't think Mr. Guichon does.  
30 Whether this got into this brief by reason of personalities



D3 1 other than ours, because my own experience has been very  
2 fine with the Tax Department, and I have said this repeated-  
3 ly. True, we have differences of opinion and we argue  
4 with them, and that is what they are for, and that is what  
5 we do. Occasionally, of course, individual assessors will  
6 cause annoyance to a taxpayer. Nobody likes to pay addi-  
7 tional taxes, but generally throughout the whole assessing  
8 unit of the Tax Department they have very competent staff.  
9 I think they are very considerate, very fair, very able.

10 As I say, we can argue our heads off during the  
11 afternoon, but that is the end of it.

12 THE CHAIRMAN: Thank you. I think we will drop  
13 this here. Certainly tax gatherers like taxpayers can be  
14 unreasonable, quite unreasonable. We have instances where  
15 things have gone wrong. As I said before they are people.

16 MR. GUICHON: Mr. Carter and members of the  
17 Commission, as I pointed out in the beginning this brief  
18 was drawn up of replies from questionnaires. I think it  
19 would be well to bear in mind perhaps 75% of the member-  
20 ship in our Association, when dealing with tax accountants  
21 and officials, wouldn't be represented by professional  
22 advisors and naturally the individual ranchers without  
23 the experience and ability would have difficulty at times  
24 and this perhaps was put in thinking of those members who  
25 had difficulties and naturally reported them on this  
26 questionnaire.

27 THE CHAIRMAN: I think that is quite under-  
28 standable. Thank you, Mr. Russell. Thank you, Mr.  
29 Guichon. Thank you very much indeed for your appearance  
30 this morning telling us about this, and particularly the



D4 1 lesson you gave us on the basic herd. I think that will  
2 stay with us. I am very glad to have had that one. What  
3 you have said to us we will consider carefully. I thank  
4 you very much indeed.

5 MR. RUSSELL: Thank you, Mr. Chairman.

6 THE CHAIRMAN: I think we will have a five-minute  
7 recess.

8  
9 --- Short Recess

10  
11 THE CHAIRMAN: Mr. Secretary, we will have the  
12 next submission.

13 THE SECRETARY: The second brief this morning is  
14 being presented by Mr. C.E. Scanlan of North Vancouver.  
15 Mr. Scanlan is here this morning to speak to his brief,  
16 which I now enter in the record as Exhibit 124.

17  
18 --- EXHIBIT NO. 124: Submission of Mr. C.E. Scanlan.

19  
20 SUBMISSION OF MR. C.E. SCANLAN

21 THE CHAIRMAN: Good morning.

22 MR. SCANLAN: Good morning.

23 THE CHAIRMAN: We have your submission before us  
24 and we have read it. You are a professional engineer, I  
25 see, by what you have told us.

26 MR. SCANLAN: Yes.

27 THE CHAIRMAN: What causes your interest in  
28 taxation? We all have a minor interest in it; some more  
29 than others. I was wondering why you are concerned with  
30 it to this extent.



D5 1 MR. SCANLAN: Well, the main subject of the  
2 brief is in connection with education and that is, you  
3 see, the taxes municipalities have to pay. I had 20  
4 years experience in municipal life as alderman and Mayor  
5 of Kamloops and counsellor and Reeve of the District of  
6 North Vancouver. Education costs have always been a  
7 serious thing to me in making up municipal budgets.

8 THE CHAIRMAN: It would seem pretty logical  
9 you would get carried into this particular area in those  
10 circumstances. You start off by suggesting that the  
11 Canadian economy is approaching a point of becoming stag-  
12 nant. I thought we had a very good year last year with 7%  
13 growth in the G.N.P.

14 MR. SCANLAN: The balance of trade isn't so hot,  
15 is it?

16 THE CHAIRMAN: It is better. It is improving.

17 MR. SCANLAN: It is becoming better.

18 THE CHAIRMAN: That doesn't indicate stagnation.

19 MR. SCANLAN: It is not stagnation but it is  
20 approaching the point where it will unless something is  
21 done.

22 THE CHAIRMAN: As you say, your brief deals  
23 primarily with education. We might as well proceed to  
24 matters of education.

25 COMMISSIONER WALLS: I wonder if I could ask  
26 one question on this first page, before we get on to that?  
27 I am rather interested being in agriculture as to the  
28 authority for your statement that "subsidies as provided,  
29 whether rightly or otherwise for agricultural products  
30 cannot apply to industry." The cost of/support last year  
price



D6 1 by government was \$22 million and the subsidy to only two  
2 industries, coal mining and gold mining, was \$28 million.  
3 other  
4 There are a number of industries that are receiving a  
5 subsidy, such as coastal shipping, railways and so on.  
6 On what basis, Mr. Scanlan, do you state subsidies are  
7 not available to industry?

8 MR. SCANLAN: I am talking particularly in that  
9 case of manufacturers.

10 COMMISSIONER WALLS: Pardon me, I didn't hear  
11 what your reply was.

12 MR. SCANLAN: I said I was talking about subsi-  
13 dization of manufacturers; the manufacturing industry,  
14 not the mining industry.

15 COMMISSIONER GRANT: You wouldn't regard tariffs  
16 also as a form of subsidization? Many manufacturing  
17 industries wouldn't be able to continue if they didn't  
18 have a certain amount of protection and there is a simi-  
19 larity between that and subsidization, don't you think?

20 THE CHAIRMAN: I think we all agree, Mr. Scanlan,  
21 as to the increasing need for funds for education. I think  
22 in the future we are going to see very substantial increases  
23 made in the cost of education. You indicate here that  
24 property taxes are not going to bear very much more of  
25 this kind of cost. Why must we assume that property taxes  
26 are very heavy at the present time? What is the evidence  
27 that properties are very heavily taxed at the present time?

28 MR. SCANLAN: We pay almost 50% of the property  
29 tax into education.

30 THE CHAIRMAN: Is that bad? That you don't  
approve of.



D7 1 MR. SCANLAN: This is North Vancouver, the  
2 property tax on the general rate, that is for municipal  
3 business: \$1,927,000, and for schools, it was \$1,735,000.  
4 The increase in the school population is rising from some  
5 ten to twelve percent a year which means that in five  
6 years your school rates will be increased to the extent  
7 it equals or exceeds the general tax rate.

8 THE CHAIRMAN: Right. I don't doubt that. More  
9 money must be found out of taxes and it is a question as  
10 to which taxes are the most suitable for this purpose.  
11 Should it be income tax, sales tax, property tax - I don't  
2 12 know. There are pros and cons to each, I think. If  
13 properties have reached a point where they are being  
14 sold for taxes and there was other evidence that taxation  
15 on properties was causing damage in this area to home  
16 ownership I daresay the money should be raised by other  
17 means. I was asking/question seeking evidence that  
18 properties are actually taxed too much. We have heard  
19 that said by other municipalities. I am not sure what the  
20 evidence is on that.

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E/MR/dpw 1

2 A friend of mine recently had to move out of his  
3 house because he could not afford to pay the taxes any  
4 more and that is only one case probably of a good many.

5 THE CHAIRMAN: You think that is happening  
6 fairly often, do you?

7 MR. SCANLAN: I do, yes; especially with the  
8 older people who made provision for themselves in the  
9 early days, on certain superannuation, but prices have  
10 gone up to the extent that superannuation that they  
11 provided for when they were working is not sufficient to  
12 keep them today and if it wasn't for the old-age pension  
13 that a lot of them get, they wouldn't be able to live at  
14 all.

15 COMMISSIONER WALLS: Am I right that your  
16 suggested 1% sales tax is on all manufactured goods which  
17 will include those that are presently exempted under the  
18 federal sales tax?

19 MR. SCANLAN: I imagine that since industry  
20 needs educated people, properly trained people, that they  
21 would be willing to pay a small percent of their profit  
22 for education which, with the improved education they receive  
23 in their industry, they would be able to cut their  
24 costs over a short period of time.

25 COMMISSIONER WALLS: Am I right in interpreting  
26 that when you say 1% sales tax, that is an alternative to  
27 that portion of paying for the cost of education that today  
28 comes from the property tax? In other words, 1% would not  
29 give you sufficient to pay for all elementary and secondary  
30 education, so I presume that you are still looking to  
government to pay the amount



E2 1 that now comes out of consolidated revenue, and this 1%  
2 would replace that portion that is today paid by property  
3 taxes; is that right?

4 MR. SCANLAN: To some extent, yes. You see,  
5 at the present time the Federal Government, to assist  
6 unemployed, have many grants to the municipality for winter  
7 work, and if the municipality's tax rate for schools  
8 could be cut, say, 50%, that money would be available for  
9 the municipalities to provide work for a large proportion  
10 of the unemployed in the municipalities.

11 At the same time, it would relieve the Government  
12 of winter work programs and other assistance which they  
13 render from time to time.

14 THE CHAIRMAN: Thank you, Mr. Scanlan. We have  
15 considerable sympathy for your point of view. Whether  
16 you picked the right solution or not, I don't know, but it  
17 seems pretty clear that educational costs are going to be  
18 increased. More funds are going to have to be raised to  
19 pay for education, and probably many of us would think  
20 there is no better way to spend our money. Just how to  
21 raise it is far from being resolved.

22 We have no further questions. Have you anything  
23 more you would like to say to us?

24 MR. SCANLAN: No. I think the suggestion that I  
25 made is worth consideration.

26 THE CHAIRMAN: Thank you very much. I am sure  
27 it is worth consideration.

28 MR. SCANLAN: Thank you.

29 THE CHAIRMAN: Let us proceed, Mr. Secretary.

30 THE SECRETARY: Mr. Chairman, the next brief is



E3 1 from The Corporation of the Township of Langley. Councillor  
2 Noel Booth will present the opening remarks and will intro-  
3 duce his colleagues. I would like to enter this brief  
4 into the record as Exhibit No. 125.

5  
6 --- EXHIBIT NO. 125: Submission of The Corporation of the  
Township of Langley.

7  
8 SUBMISSION OF THE CORPORATION OF THE  
9 TOWNSHIP OF LANGLEY.

10 Appearances: Councillor Noel Booth  
11 Reeve W. Poppy  
12 Mr. D.J. Doubleday

13 THE CHAIRMAN: Good day, Councillor Booth. If  
14 you would be so kind as to introduce your colleagues, I  
15 introduce to you this Commission whose names you see in  
16 front of us. I would like to know a little bit more about  
17 the Township of Langley than you tell us in your submis-  
18 sion. I assume it is not very far away from Vancouver,  
19 although I have got little idea of the size of it, I am  
20 afraid. Anyhow, in your introductory remarks anything  
21 along that line would be appreciated.

22 MR. BOOTH: Is it necessary to stand up?

23 THE CHAIRMAN: Do whatever you please. Most  
24 people sit down.

25 MR. BOOTH: Mr. Chairman and members of the  
26 Commission, the Langley delegation consists of Reeve W.  
27 Poppy; our clerk, Mr. Doubleday, and we have with us  
28 Councillor E.S. Flowerdew.

29 Now, to speak of the district of Langley, we  
30 are a large area located, if you are familiar with the



E4 1 geography of the Fraser Valley - we are the municipality  
2 next to Surrey, just on the other side of the Pattullo  
3 Bridge. We have a very old historical tradition in  
4 Langley. We were the first capital of the province. In  
5 fact, we rather assume we are somewhat the centre of  
6 things and Vancouver built up around our borders.

7 In submitting this brief, Mr. Chairman, there  
8 is one statement we have made in there which I think  
9 requires a little explanation. We have stated, for  
10 example, or we have given a figure of 40% of the Gross  
11 National Product. Our resources for establishing this  
12 figure are not too good.

13 I imagine it will be necessary for the Commission,  
14 in its deliberations, to ascertain that exact figure  
15 because I think this has a material bearing on the whole  
16 economic and taxation picture in Canada. It could be that  
17 40% may turn out to be 30%. I rather hope it will because  
18 I was reading Parkinson the other night, the man that  
19 comes up with his views on what do you term it - laws?  
20 I think he calls them laws, and he remarks in his latest  
21 book that 35% taxation, Gross National Product, is in such  
22 a state that at 35% we have gone over the whole economy -  
23 gone beyond the point of no return. We rather hope that  
24 figure will be less than 40%. I hope we haven't gone that  
25 far.

26 I have a statement here - and probably I can  
27 read it, because it supplements the brief, and to some  
28 extent repeats the salient parts of the brief. I would  
29 say that my credentials are from the school of experience.  
30 I imagine the Commission is used to having people come



E5 1 here with a lot of degrees. The only degree I can offer  
2 is the question of experience.

3 Now, this experience, in my case, goes back to  
4 1933, when I served by first term as Reeve. Since that  
5 time I have served as Councillor, School Trustee, member  
6 of the executive of the Union of B.C. Municipalities,  
7 and as Chairman of the Fraser Valley Municipal Association

8 We agree with the widely held view among municipi-  
9 pal officials that the municipalities are being loaded by  
10 the Senior Governments with expenses non-municipal in  
11 character and that this condition is causing the Municipal  
12 taxpayer to carry more than a fair share of the tax load.  
13 This situation is being reflected in the unprecedented  
14 rise in municipal taxation. We contend that Federal and  
15 Provincial money must be made available to the municipali-  
16 ties to help pay for these non-municipal costs, or alter-  
17 natively, that the federal and provincial governments  
18 assume these costs directly.

19 For these reasons, we welcome the establishment  
20 of your Commission with the hope that this fundamental  
21 problem will be given the serious attention it deserves.  
22 We assume that other municipal organizations will be  
23 making submissions to your Commission on a variety of  
24 topics. These topics may be all very worthwhile but even  
25 if they are granted, may be palliative in effect, so we  
26 must insist that the fundamental problem is the unscram-  
27 bling of the present tax omelette. The basic need is for a  
28 more concise enunciation of the responsibilities and prero-  
29 gatives of all three levels of government. This may  
30 require a revision of the existing or the creation of a



E6 1 new constitution for our Country. There would appear to  
2 be adequate justification for the partnership principle to  
3 be applied between all three levels of government in place  
4 of the present everlasting jockeying for advantage which  
5 is in effect now, and in which the municipalities by  
6 their inferior position, are forever doomed to be the  
7 losers. It is high time that municipal government is  
8 given the status commensurate with its responsibilities.

9 We feel that the creation of this new perspec-  
10 tive in governmental relationships will make it possible  
11 to establish financial policies that are commensurate  
12 with responsibilities involved and more acceptable to the  
13 Canadian taxpayer. The present taxation structure, in  
14 our opinion, is built upon a questionable foundation; to  
15 rearrange certain components of that structure would, at  
16 best, be temporary in nature and could, in the long run,  
17 add to the complexity of the problems involved in the  
18 establishment and administration of tax policies.

19 In our Brief, we have stated that the role of  
20 the municipalities shall be limited to those activities  
21 which may be called service to property, such as roads,  
22 bridges, water, sewers, street lights, police, fire protec-  
23 tion, etc. The property owner can be rightfully expected  
24 to assume such costs and they should be the limitations  
25 of municipal taxation. The municipal taxpayer should not  
26 be obligated to pay for services not localized in character,  
27 such as social service, schools, hospitals, etc.

28 To give the Commission some idea of the impact  
29 of school costs upon the municipal taxpayer in this  
30 Province, we remember not long ago when the cost per pupil



E7 1 was around \$100 per year. We have recently had a Provin-  
2 cial Royal Commission dealing with Education, known as the  
3 Chant Commission. The Chant Commission predicted the  
4 following rise in cost per pupil - 1960 - \$406.16;  
5 1965-66 - \$543.36; 1970-71 - \$734.95; and from 1972-75 -  
6 \$988.65. When school costs were around \$100 per pupil  
7 we could tolerate a bad principle because the cost was not  
8 unduly harmful, but if the increases predicted in the  
9 Chant Report are realized, and they have been correct so  
10 far, and if the present municipal responsibilities of the  
11 school costs remain in effect, then the future of the  
12 municipal taxpayer is very grim indeed. These school  
13 costs are symptomatic of the application of bad principles  
14 of taxation. This causes an imbalance in the tax load.  
15 It is obvious that the narrow tax base of Real Property,  
16 which provides the main base of municipal taxation, cannot  
17 carry such impositions and it is grossly unfair that it  
18 be expected to do so.

19 If, as a result of your labours, you get a more  
20 equitable distribution of taxation, all generations of  
21 municipal taxpayers will rise up and call you Blessed.

22 THE CHAIRMAN: Thank you, Mr. Reeve. We would  
23 like that.

24 MR. BOOTH: I am the Councillor, Mr. Chairman.  
25 The Reeve is on my right.

26 THE CHAIRMAN: Thank you, Mr. Councillor. You  
27 have certainly enjoyed very long experience. I note it  
28 is 30 years since you first became Reeve. It is certainly  
29 very helpful to us to have people with that kind of  
30 experience come before us and tell us these matters.

It is a little uncertain as to whether our



1 terms of reference, our instructions in this Commission  
2 take us into this area to which you are now guiding us.  
3 Certainly we are, and must be, concerned with the total  
4 weight of taxation and the total weight of taxation  
5 includes municipal taxes, so that we are glad to receive  
6 from you these remarks, and this submission.

7           Might I say that we were a little startled when  
8 you opened with the 40% figure. We had not heard anything  
9 as high as that before.

10           While we are not in a position to state precisely  
11 what it is, we believe it to be somewhere much closer to  
12 30%, but I am not going to be precise now as to whether  
13 it is 28 or 32 or what it is. I don't know, to be quite  
14 honest with you.

15           Now, the costs that you suggest that are saddled  
16 on municipalities, which you believe should not be saddled  
17 on municipalities, but ought to be borne by senior govern-  
18 ments, relate to social service, schools and hospitals,  
19 primarily, I gather from what you had to say. I was not  
20 altogether convinced that these charges are not local  
21 charges, properly charged against the locality. Social  
22 services are something that grew up in the locality. At  
23 one time I presume they were unorganized and taken care of  
24 by the more fortunate in the community. Certainly schools,  
25 I would think in any community, started from the churches  
26 who were local in their nature, and I suppose hospitals  
27 were pretty much the same.

28           You point out that           national sources are  
29 not local. It may well be that the locality cannot find  
30 the money to support them. I am uncertain as to that.



E9 1 Certainly whatever is done is going to fail on the taxpayer  
2 from whichever level of government. Somebody said to us  
3 it is not property that pays taxes. It is persons that  
4 pay taxes and it is all a question of how persons share  
5 the load, so that I think it is interesting to have you  
6 come forward and make your pitch as strongly as you have  
7 on this score.

8 MR. BOOTH: May I add to my comments, Mr.  
9 Chairman?

10 THE CHAIRMAN: By all means.

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B/dpw 1

MR. BOOTH: The school position we have

2 depicted here is really going to be much worse because we  
3 have been taking care already of elementary schools,  
4 taking our share in the high school situation. The  
5 Provincial Government recently stated they intend to  
6 establish junior colleges so probably municipal taxpayers  
7 will pay the two years of university. Our feeling is  
8 this real property angle of taxation which is the source  
9 of our revenue has too narrow a base for the discharging  
10 of these functions. We go to the Provincial Government  
11 for funds to take care of these things and carry this load.  
12 We feel that the Federal Government should make some  
13 contribution to these things.

14 For example, we borrow a lot of statutes here  
15 from Great Britain. The municipal situation in Great  
16 Britain is that local government pays 38% and the Parlia-  
17 ment pays 62. Surely we have come to the point here when  
18 this question of this jockeying between the municipal  
19 approach and provincial approach - we don't approach as  
20 equals; we approach like a man might approach a magistrate.

21 The Government tells us what to get and what  
22 they are going to propagate us with. There is no appeal.  
23 This condition is making the tax situation in Canada so  
24 inequitable. You have a whole segment that gets by lightly.

25 Also there is the point a man has not equity in  
26 real property. We believe the thing is very unfair and  
27 we are hoping this Commission - we in our brief suggest,  
28 although we are not positive of this - we believe the  
29 Commission should look at the capital gains in Canada.  
30 We are one of the few countries that have no capital gains.



F2 1 It may relieve the burden on property tax.

2 Further to the comment, Mr. Chairman and members  
3 of the Commission - the Chairman has overlooked the ques-  
4 tion of constitution. Federally we know what the rights  
5 and prerogatives of the Government are. The provinces  
6 have also rights and prerogatives, properly organized and  
7 defined by statutes. The municipalities have no statute  
8 at all.

9 We suggest to the Commission to elaborate on  
10 this so we know what the Provincial Government - what the  
11 next scheme, what the next thing they are going to do is.  
12 If we could get statutes, municipal statutes in Canada so  
13 that we would be like the other two levels of government  
14 and we would be protected by statute and other  
15 governments wouldn't get into those and real property  
16 would have some protection.

17 THE CHAIRMAN: We are only a commission concerned  
18 with taxation but I always understood that the municipali-  
19 ties are the ---

20 MR. BOOTH: Wards.

21 THE CHAIRMAN: Of their province; and, of course,  
22 as they gain in stature and size and wealth their voices  
23 appear to become more strong. I suppose that is natural  
24 enough.

25 COMMISSIONER WALLS: There is one or two things  
26 I would like to ask in regard to your suggestion as to the  
27 use of capital gains. I believe that is rather <sup>a</sup> alternative  
28 from a municipality ~~/new/coming~~

29 MR. BOOTH: No, sir. Let me make that clear:  
30 in our brief, we haven't taken any positive suggestions.



F3 1 We haven't said this should be done. We have put the  
2 question forward, is it possible and would it help.

3 THE CHAIRMAN: You suggest an investigation of  
4 the feasibility.

5 MR. BOOTH: That is right.

6 COMMISSIONER WALLS: I appreciate that, but what  
7 I would like from you being that you are a rural municipal-  
8 ity; is what in having to pay capital gains when in old age  
9 they were forced to sell the farm or turn it over to their  
10 sons? Would they favour capital gains?

11 MR. BOOTH: I think in our brief we say it  
12 should be considered on a progressive basis. I think that  
13 is fundamental of any capital gains. The thing that  
14 disturbs me is municipal procedures. I had the opportunity  
15 of studying some Financial studies and I am told Craigmont  
16 was 30 and is now 20 and Steep Rock 1.26 and now it is  
17 23-12, and all these others - surely those people that are  
18 making money, these fabulous amounts of money - surely  
19 this other part of the economy could provide some sort of  
20 taxation to help what the municipalities are getting now.

21 COMMISSINER WALLS: One other question that  
22 rather confused me, and, of course, I appreciate you just  
23 want to see an investigation of the use of capital gains,  
24 as you say in one part of your brief, but in the Murison  
25 study of which you supplied us with a copy and which you  
26 endorsed one hundred percent, yet the suggestion that  
27 capital gains be used to pay for municipal sections of the  
28 education cost is contrary to the suggestion put forward  
29 by Mr. Murison.  
30



F4 1 MR. BOOTH: Let me make this thing clear. We  
2 are not suggesting that you use capital gains. We merely  
3 had to come up with something of a positive nature in all  
4 this speculation, and we used capital gains. It is worth  
5 looking into. We are not saying the Commission should do  
6 it.

7 THE CHAIRMAN: We are merely exploring the same  
8 as you are; what the reaction would be to it.

9 MR. BOOTH: The Murison report with the B.C.  
10 municipalities - this is an elaboration. We figure the  
11 Commission isn't going to be interested in investigating  
12 provincial-municipal relations. Our submission is merely  
13 on general lines of equitable distribution of the Canadian  
14 tax rate. We have the tax burden for education and it  
15 should be taken off our taxes. The only people who can do  
16 it are the Federal and Provincial Governments.

17 COMMISSIONER MILNE: This may not be a problem  
18 in British Columbia, but I have heard a comment in some  
19 other provinces that the size of the municipality contri-  
20 butes to this problem. Do you think there is anything in  
21 that?

22 MR. BOOTH: What problem - you mean of taxation?

23 COMMISSIONER MILNE: In some cases, that munici-  
24 palities based on size are too small to bear what is  
25 placed upon them.

26 MR. BOOTH: I don't - I couldn't go along with  
27 that. We are a very large municipality.

28 COMMISSIONER MILNE: It possibly isn't a problem  
29 here.

30 MR. BOOTH: It is a problem. We get certain



1 grants. We apply to the Government and we have a municipi-  
2 pality with probably 350 miles of roads being maintained  
3 and we have another neighbouring municipality who probably  
4 are a city combination with only 27 miles. There is no  
5 formula that will - if we get a grant from the Provincial  
6 Government they don't say, "We are going to pay you so  
7 much a mile." A little city with 23 miles quite  
8 conceivably could get the same as we do through the supple-  
9 mentary highway grants, you see. I don't think size has  
10 anything to do with it. I think no matter what the size,  
11 no matter how small, no matter how big, as long as you are  
12 compelled to get the taxes on a municipal level, that real  
13 property is in real danger.

14 Some relief must be given from the pressure of  
15 that.

16 THE CHAIRMAN: The administration of the services  
17 is local, is that not right? Education, social services,  
18 and hospitals.

19 MR. BOOTH: In the Province of British Columbia  
20 the social services are now in the hands of the professionals,  
21 the social service workers, and administered by the province  
22 and I think the only way we participate, we get the privi-  
23 lege of signing cheques, the Reeve. The schools - we have  
24 seen the emasculation of school boards. They had power,  
25 some authority, and now we have quite a change. The powers  
26 have greatly been taken away and we have in the municipal  
27 field - we collect, for example, in Langley, I think,  
28 perhaps, half the cost of education in the schools and  
29 we collect and we turn it over to the school board. That  
30 is the question of administration. The hospital is the



F6 1 same way. It is administered not by the municipality who  
2 buys the asset, and we make the contribution toward the  
3 cost, and so on, and then we get certain funds from the  
4 Provincial Government under this scheme we have in the  
5 Province of British Columbia.

6 THE CHAIRMAN: You have a great deal to say  
7 about the composition of the school board, I think.

8 MR. BOOTH: Local people have the right to elect  
9 them. The powers of the board have been so circumscribed  
10 and limited - for example, a man like myself whose memory  
11 goes back to when school boards could hire and fire  
12 teachers and really do things - these days are gone.

13 COMMISSIONER PERRY: Mr. Booth has said he feels  
14 real property is in danger, to use his exact words. What  
15 danger do you fear?

16 MR. BOOTH: The danger we fear is this: the  
17 property is local, and apart from some very big financial  
18 outlets who probably have very great investments in real  
19 estate holdings - the general property holder is a small  
20 man, a man with very limited assets, and his home is his  
21 asset. With the tax loads of government he loses his equity  
22 - that is his asset in the country. If you raise taxation  
23 to when you destroy the equity who is going to buy if you  
24 have to buy it back every ten years. We are rapidly  
25 approaching that. You are destroying the man's equity.  
26 You are destroying the man's character.

27 COMMISSIONER PERRY: Is there any actual evidence  
28 of this?

29 MR. BOOTH: The actual evidence is the raise in  
30 taxes and the raise is as we see it. This raise is jumping



P7 right now. When you compare a man in this province a  
2 little while ago paying \$100 and what they do today.

3 COMMISSIONER PERRY: Has there been any increase  
4 in your investment?

5 MR. BOOTH: I haven't found any.

6 MR. POPPY: Possibly I could answer that. In  
7 my own case, I am a farmer. I can't give you exact  
8 figures. I didn't know this question was going to come  
9 about. Five or six years ago the taxes on my property  
10 were \$600. I paid this year \$1,268 less \$70 - after the  
11 \$70 homeowner grant was taken off. As far as farm income  
12 is concerned, Mr. Chairman, the net farm or gross farm  
13 income - the gross farm income hasn't increased to take  
14 care of that tax load. In other words, these acres of  
15 land haven't produced any more to take care of this. We  
16 have to find it some other way. Possibly that answers  
17 your question.

18 THE CHAIRMAN: It goes part way.

19 COMMISSIONER PERRY: I am quite aware of this,  
20 of course. This is what happens. What I was really trying  
21 to get at is what evidence there is of the fact of this  
22 very marked change which one might say is evident in  
23 other taxes. There have been marked increases in income  
24 tax, corporation tax, sales tax; you can just go down the  
25 line. In these other areas people alleged specific facts.  
26 This doesn't seem to be true of people who complain about  
27 property tax. All we get is arithmetic. I was wondering  
28 if there is anything tangible you could pin it down to.

29 MR. BOOTH: I could give you a little arithmetic  
30 here.



F8 1 COMMISSIONER PERRY: With respect, I am really  
2 not after arithmetic.

3 MR. BOOTH: I could give you a picture of the  
4 tax level in Langley over the past years.

5 COMMISSIONER PERRY: Not really. It would be  
6 very impressive, but it wouldn't answer my question. The  
7 previous witness touched on this. He said he knew of  
8 friends who had been forced to move from their home.  
9 Do you see much of this sort of thing in your municipality?

10 MR. POPPY: I think we would have more people  
11 move if they could turn their property over. The turn-  
12 over on property isn't too large.

13 COMMISSIONER WALLS: Have you evidence of farmers  
14 moving off the farm because taxation is making it a non-  
15 economic operation? That is the question

16 MR. POPPY: I am sure, Mr. Chairman, it is a  
17 difficult question to answer because a farmer who has  
18 equity in the property just can't afford to move off his  
19 property. He holds on hoping some day to dispose of it.  
20 You can't just move off. To answer the question truthfully  
21 I don't think there is any farmer moving off his property  
22 because he can't afford to pay taxes, but, nevertheless,  
23 he is not able to afford to move off his property. He  
24 has a certain equity there and he hangs on hoping that  
25 some day there will be a little glow on the horizon.

26 THE CHAIRMAN: Are tax sales increasing?

27 MR. POPPY: No.

28 COMMISSIONER PERRY: I would just point out to  
29 you one way of avoiding income tax is not to have income,  
30 but people must have income. A farmer must have property.



F9 1 There are certain things that are essential here, that  
2 must be lived with. Perhaps your property tax is one of  
3 them.

4 MR. BOOTH: In the old country the farmer is  
5 not taxed on his land at all. He is only taxed a rate  
6 based on the little house he lives in; that is his  
7 personal house. For example, a man is making a living.  
8 The problem, the farmer has to have land. Why should he  
9 pay taxes like the Reeve does on a comparatively small  
10 piece of land when a carpenter or plumber actually have  
11 the same amount of capital in making a living and pays  
12 no additional tax at all. Where is the equity?

13 MR. POPPY: I think what we are trying to point  
14 out are the inequities and the inequalities of the present  
15 tax system. If somebody along the line could come up with  
16 an equitable solution to the tax problem I would think we  
17 would all be very happy. I think it is a basic problem.

18 THE CHAIRMAN: We started out saying that all  
19 taxpayers throughout the land have to share the total  
20 burden of all taxes throughout the land. It is a matter  
21 of apportionment. It may be that the man who owns  
22 property such as the farmer is bearing more than his share.  
23 I don't know the case is very clearly proven. I am not  
24 sure the comparison between the carpenter and his tools  
25 and the farmer is as valid as, perhaps,  
26 a comparison between a farmer and a man who owns a small  
27 shop. A man with a shop pays taxes. A farmer pays taxes  
28 and the man with the shop has other costs that the farmer  
29 hasn't got. You can't compare it all down the line.

30 MR. BOOTH: I can see, sir, you have never been



F10 1 a farmer.

2 THE CHAIRMAN: Pardon?

3 MR. BOOTH: I see, sir, you have never been a  
4 farmer.

5 THE CHAIRMAN: Indeed, I am a farmer's son and  
6 Mr. Grant is a farmer and Mr. Walls knows something about  
7 farming.

8 COMMISSIONER PERRY: We are all property owners.

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G/MR/dpw 1

2 MR. BOOTH: If that question is as to our  
3 people leaving businesses, of course, the answer is no.  
4 As long as that is their equity, as long as they can get  
5 a nickel in the sock, they are going to pay taxes to  
6 retain their equity. If they leave, where are they going  
7 to go? Nowhere they can; they've got to have a similar  
8 situation. A man has to have a roof over his head.

9 THE CHAIRMAN: And he has got to pay taxes.

10 MR. BOOTH: Providing he pays his fair share  
11 and doesn't pay in excess of the amount of the national  
12 tax load. That is what we consider.

13 COMMISSIONER GRANT: I would like to get the  
14 reaction of Mr. Booth and his associates to the property  
15 taxes in the light that for many years real estate  
16 property got off pretty lightly, and it could be that it  
17 had not paid its fair share of the load of taxes.

18 Now, it has only been since the war that we have  
19 had this tremendous upsurge in educational costs brought  
20 about through necessity and, in fact, the dire necessity  
21 of providing better schools for our children. The respon-  
22 sibility for that fell, first of all, directly upon the  
23 property owner and it has continued to fall largely on the  
24 property owner.

25 I wondered if you would agree that the property  
26 owner did have an obligation to discharge there, and that at  
27 the present time he is discharging it. To a large extent  
28 he has borne the increased cost. I wonder if you are  
29 concerned more about the projected cost of education, to  
30 which you have already referred, and the fact that this  
burden, unless some change is made, is going to continue



G2 1 to be borne by the property owner. I wonder if you would  
2 admit that the property owner has, up to a certain point,  
3 a duty to perform?

4 MR. BOOTH: Should he have an obligation towards  
5 the cost of education? Is that your point?

6 COMMISSIONER GRANT: Yes.

7 MR. BOOTH: Quite frankly, no. No. We feel that,  
8 as I outlined in our brief, municipal taxpayers should pay  
9 taxes that give service to the property. That is what he  
10 is being taxed on, and the question of schools, social  
11 services, hospitals, should be taken care of by the Provin-  
12 cial and Federal Governments.

13 COMMISSIONER GRANT: So, really, Mr. Booth, you  
14 are looking for a change in the constitution?

15 MR. BOOTH: That is right. We would like that.  
16 I don't know whether it is beyond the powers of this  
17 Commission, but I think we should consider it. As I said  
18 before, you have the federal organization, you have the  
19 provincial; at the municipal level, entitled to municipal  
20 organization that would not be subject to the whims and  
21 dictates of the Provincial Governments who obligate them  
22 to this cost and that cost willy-nilly without regard to  
23 any scientific analysis of the situation, and just by the  
24 whim of a Minister who says, "You pay this, and you pay  
25 that." We can't keep on in that position.

26 THE CHAIRMAN: We thank you, gentlemen, very  
27 much. If we appeared to fight back and not accept what  
28 you put before us, it is essentially because we want to  
29 draw you out to see whether you really have got convic-  
30 tions. I have come to the conclusion that you have and



G3 1 that you are pretty strong in them.

2 I am not going to say I fully accept them, but  
3 certainly we will ponder what you put before us and we  
4 may be influenced - I don't know - but we thank you very  
5 much indeed most sincerely for coming before us and I do  
6 wish there were more people like yourselves who were  
7 conscious of their duties as citizens and will come forward  
8 to say their piece with regard to taxation.

9 Thank you very much, Mr. Reeve and gentlemen.

10 MR. BOOTH: Thank you, Mr. Chairman and members  
11 of the Commission for this hearing.

12 THE CHAIRMAN: Mr. Secretary, shall we proceed?

13 THE SECRETARY: Mr. Chairman, the next brief is  
14 being presented by Mr. V.E. Nordlund. Associated with Mr.  
15 Nordlund this morning are the Reverend David Forbes on  
16 Mr. Nordlund's left, and the Reverend Ray Tingley on his  
17 right.

18 Reverend Forbes will read the notes on behalf  
19 of Mr. Nordlund. Mr. Nordlund will make a few introductory  
20 remarks.

21 I would like to enter this brief into the record  
22 as Exhibit No. 126.

23  
24 --- EXHIBIT NO. 126: Submission of Mr. V.E. Nordlund.

25 SUBMISSION OF MR. V.E. NORDLUND

26 Appearances: Mr. V.E. Nordlund  
27 Rev. David Forbes  
28 Rev. Ray Tingley

29 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
30 morning, Mr. Nordlund, gentlemen. Don't stand. Most



G4 1 people appearing before us treat this as informally as we  
2 would like it to be and remain seated. If you prefer to  
3 stand, do so. I think lawyers are the only ones who  
4 generally stand.

5 We have your submission. We have read it with  
6 interest. You, Mr. Nordlund, are a schoolteacher?

7 MR. NORDLUND: A retired schoolteacher.

8 THE CHAIRMAN: And you appear before us because  
9 you feel fairly strongly on this subject, I imagine?

10 MR. NORDLUND: Yes, sir.

11 THE CHAIRMAN: We would be very glad to hear  
12 any introductory remarks that you care to make and probably  
13 we will have a few questions to ask of you.

14 MR. NORDLUND: Mr. Chairman, I appreciate very  
15 much this opportunity to speak to the Royal Commission on  
16 Taxation. These few notes that are to be read are not to  
17 be thought of as an attempt at a comprehensive coverage of  
18 our topic. That has been more fully dealt with in our  
19 previous submission. These are just a few notes that I  
20 wanted to mention, to introduce the topic. For the  
21 purposes of the record, I felt it wise that these notes  
22 should be read and I would, therefore, like to call on  
23 my very good friend, Reverend David Forbes, to read my  
24 notes for me.

25 THE CHAIRMAN: Reverend Mr. Forbes will read  
26 the notes. All right, Reverend Forbes.

27 REV. FORBES: Let me say, sir, that I am happy  
28 to be associated with Mr. Nordlund in this matter because  
29 I am the first Dominion Vice-President of the Canadian  
30 Protestant League as well as President of the local branch



Q5 1 here in Vancouver, and a local pastor as well.

2 This matter has disturbed us for quite a  
3 considerable time and I was happy that we were being  
4 given an opportunity here this morning to air our feelings  
5 on the matter. These are Mr. Nordlund's notes.

6 'Gentlemen: In reference to our submission on  
7 personal income tax inequalities, which deals with income  
8 tax exemptions for members of religious orders:

9 Section 27(2), enacted in 1949, which provides  
10 income tax exemptions for members of religious orders,  
11 was not part of the original Income Tax Act. This is  
12 understandable since the fundamental principle of income  
13 tax is that it is a tax on incomes received without  
14 reference to what people do with their income. Except for  
15 standard exemptions applicable to all persons, what a  
16 person does with his income is not a concern of the govern-  
17 ment.

18 There are increasingly large numbers of these  
19 people employed in various occupations and professions.  
20 With other persons employed in these professions or occu-  
21 pations the income tax is deducted from their cheques.  
22 Members of religious orders, doing the same work, enjoying  
23 the benefits of prevailing salary schedules, are completely  
24 exempt from the payment of any income tax. The annual loss  
25 in revenue to the federal government resulting from these  
26 exemptions, runs into millions of dollars and is in effect  
27 a subsidy paid to these orders at the expense of the  
28 Canadian taxpayer.

29 Taking the oath of perpetual poverty is a means  
30 of financing their church but it is not a valid reason for



G6 1 evading income tax responsibilities. In gratitude for the  
2 service rendered by the Government of Canada in preserving  
3 our freedoms, including freedom of religion, should not  
4 religious groups of all creeds, as good citizens, take  
5 their place among those Canadians who willingly accept  
6 the responsibility and privilege of sharing in the tax  
7 support of the government of their country?

8 In a recent trip through the Provinces of  
9 Alberta and Saskatchewan I found trustees of school boards  
10 becoming increasingly disturbed by a regulation which  
11 requires income tax deduction from the cheques of some of  
12 their teachers while the cheques of other teachers are  
13 given without any deductions. A letter received from the  
14 provincial secretary of the teachers' federation in one  
15 of these provinces included the comment, "I agree with  
16 you that this problem has reached such proportions that  
17 something must be done about it."

18 In reference to the said Section 27(2) of the  
19 Income Tax Act, an editorial in the February 1963 issue  
20 of The Presbyterian Record includes the comment, "We  
21 suggest to our fellow Canadians of that faith (Roman  
22 Catholic) that they join us in an appeal to the government  
23 to remove what is obviously a piece of unfair legislation."

24 Respectfully submitted, V.E. Nordlund.

25 Thank you.

26 THE CHAIRMAN: Thank you, Mr. Forbes. These  
27 persons who are members of a religious order and have  
28 taken a vow of perpetual poverty are, I assume, supported  
29 by their orders. You have not told us much about that.  
30 Their food, lodging, clothing and, I suppose, other



G7 1 necessities are supplied by the order; is that correct?

2 MR. NORDLUND: From the salaries received which  
3 are turned over to their order they are provided with  
4 housing, food, clothing, transportation and, moreover,  
5 they are not required or they haven't the responsibility  
6 of bringing up a family and providing education for a  
7 family. It should be clearly borne in mind that these  
8 incomes received - I should have added, and as this is  
9 stated in my previous submission, these incomes received  
10 are paid out of public funds and all these expenses you  
11 have in mind, there are incomes provided for all these  
12 expenses and, of course, more, but they have their housing,  
13 food, clothing and transportation expenses and other  
14 expenses provided by their order, to which these incomes  
15 are handed over.

16 THE CHAIRMAN: Can you support a little further  
17 your figure of \$15 million which is a suggested cost to  
18 the Federal Treasury?

19 MR. NORDLUND: Yes. The figure that I suggested  
20 in my brief is \$12 million.

21 THE CHAIRMAN: That is right. I am sorry; it is  
22 \$12 million.

23 MR. NORDLUND: Another group of teachers in  
24 Regina set theirs at \$15 million. In the year 1957/58  
25 I personally conducted a survey of three provinces:  
26 Alberta, Saskatchewan and Ontario.

27 THE CHAIRMAN: What year was that?

28 MR. NORDLUND: 1957/58 school year, and I  
29 conducted a survey of those three provinces; Ontario,  
30 Alberta and Saskatchewan, obtaining all my data directly



G8 1 from the Department of Education.

2 Now, there were at that time 2,904 teachers  
3 teaching in public schools and in separate schools - and  
4 I specify separate schools - supported by public taxation,  
5 receiving salaries that were well up in the income tax  
6 bracket, paying no income tax whatever.

7 Since that date that number, of course, is  
8 very much larger. That is just one instance to illustrate  
9 how we go about this. I have also interviewed various  
10 universities. Then, of course, there are hospitals which  
11 come in this category, too. It is a very broad category.  
12 For instance, a hospital, while it was under the support  
13 of a church, the orders would work without salary, but  
14 the minute that comes under a provincial system, they  
15 all receive salaries but not a cent of income tax deducted  
16 and the salaries are out of public funds.

17 THE CHAIRMAN: Thank you. Now, you say this  
18 has had a considerable effect on the construction of  
19 social building of different kinds as between various  
20 denominations. I don't quite see how that works. Why  
21 does it affect it?

22 MR. NORDLUND: In the submission - in our  
23 previous submission - attention was called to that and  
24 it will be understood, of course, that there are more  
25 tax avenues than income tax that come into this picture  
26 but if one denomination receives the benefit of \$12  
27 million a year, reflect on how much other denominations  
28 can do,

29 you might say, with some odd income which  
30 is, as stated in the brief, actually a subsidy paid to the



G9 1 orders at the expense of the Canadian taxpayer. Many of  
2 the other denominations will be thrilled with just \$3  
3 million annually.

4 THE CHAIRMAN: I think you make your point.

5 REV. FORBES: Apart from that, why should I,  
6 as a humble Baptist minister, have to pay income tax out  
7 of my small salary whereas the Roman Catholic priest,  
8 who receives very much more in allowances, doesn't have  
9 to pay one cent? Why shouldn't he accept the responsibi-  
10 lity of citizenship, the same as the other Christian  
11 ministers?

12 THE CHAIRMAN: Why do you suggest that he  
13 receives more in allowances?

14 REV. FORBES: Well, we know. We cannot give  
15 you proof, but we know from information that we have  
16 received that they are supplied with food and lodging  
17 and transportation and all the necessities of life.

18 There are certain parts of the income received  
19 for different things. There are certain services where  
20 the whole income from that service goes to the priest.  
21 Whether he receives a definite salary or not, he certainly  
22 receives a large sum of money which is far more than any-  
23 thing that we receive as an income, and yet they evade  
24 their responsibility as Canadian citizens by refusing to  
25 fill in an income tax form.

26 THE CHAIRMAN: Doesn't his vow require him to  
27 turn over that amount he receives out of the collection  
28 rather than spend it?

29 REV. FORBES: Yes. What is the difference  
30 between him making a vow of poverty and myself, who



G10 1 doesn't have to make a vow of poverty? The church says  
2 if the Lord keeps him humble, we keep him poor.

3 A Baptist minister generally - and I think this  
4 same can be said of all ministers generally - are usually  
5 in the lower income bracket and yet we have to pay income  
6 tax but these men do not.

7 Now, if they had any love for their country  
8 at all, I do not think they would try to evade their  
9 responsibility as Canadian citizens. They ought to pay  
10 their income tax, the same as the rest of us. We are not  
11 asking that we be exempted. We are glad to share in  
12 these responsibilities as the Lord enables us to, but  
13 we cannot see any equity in one group of people being  
14 exempted and another group of people having to pay.

15 THE CHAIRMAN: The vow of perpetual poverty  
16 applies to all Roman Catholic religious orders?

17 REV. FORBES: Yes.

18 THE CHAIRMAN: Does it?

19 REV. FORBES: Yes, but religious orders are  
20 only a camouflage, sir. Only a camouflage.

21 THE CHAIRMAN: I am not asking you for that.  
22 I am asking ---

23 REV. FORBES: I know you are not, but I am  
24 saying it anyway.

25 THE CHAIRMAN: I am asking whether there may be  
26 some religious orders within the Roman Catholic Church  
27 that do not take a vow of perpetual poverty.

28

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2 REV. FORBES: You are correct, sir. The  
3 ordinary priests in the churches, I think, don't take  
4 the vow of perpetual poverty, but they are exempt from  
5 the payment of income tax.

6 REV. TINGLEY: That is right.

7 MR. NORDLUND: I stressed in the opening  
8 remarks you should keep in mind the oath of perpetual  
9 poverty - this is really a means of financing their  
10 church. I might add that I have had various ministers  
11 come to me and say - and this is the disturbing point -  
12 "Are we other churches going to have to resort to a  
13 similar practice to be able to compete with this church  
14 that reaps this large economic advantage?"

15 COMMISSIONER GRANT: Section 27, sub-section 2,  
16 applies only to those who have taken the vow of perpetual  
17 poverty.

18 MR. NORDLUND: That is true.

19 REV. FORBES: It is also true Roman Catholic  
20 priests don't pay income taxes whether they have taken  
21 the vow or not. They are still exempt one hundred percent  
22 from the payment of income tax.

23 MR. NORDLUND: That is correct.

24 THE CHAIRMAN: If they don't take the vow why  
25 are they exempt?

26 REV. FORBES: Because are members of a religious  
27 order.

28 MR. NORDLUND: I am sorry, sir, I am unable to  
29 answer that. I would welcome an answer from the Commis-  
30 sion on that.

THE CHAIRMAN: It is not our job to answer



H2 1 questions. It is our job to ask them.

2 COMMISSIONER GRANT: I should be surprised if  
3 there are not members in the Roman Catholic Church who  
4 don't file income tax returns.

5 THE CHAIRMAN: You mean you do.

6 COMMISSIONER GRANT: I would be surprised if  
7 there are not some who do.

8 REV. FORBES: I would be surprised if they do.

9 THE CHAIRMAN: There may be some who inherited  
10 considerable wealth and haven't vowed perpetual poverty.

11 MR. NORDLUND: I think there are some Baptist  
12 clergy who don't file returns. Their salaries are so  
13 low they don't have anything to file.

14 THE CHAIRMAN: I think we understand.

15 COMMISSIONER MILNE: I have one question: I  
16 wasn't absolutely certain of whether or not the amounts  
17 of money that you spoke of - the \$12 million - is the  
18 total of the salaries received or if this is the tax  
19 that would have been paid.

20 MR. NORDLUND: This is the tax that would have  
21 been paid if they paid like other people who earn money  
22 and pay their taxes.

23 COMMISSIONER MILNE: That would be approximately  
24 50,000 people.

25 MR. NORDLUND: Yes.

26 COMMISSIONER MILNE: I wanted to be sure about  
27 that. Thank you.

28 THE CHAIRMAN: Thank you very much. I don't  
29 think we have any more questions. You have stated your  
30 case very clearly and completely and we understand it.



H3 1 We will consider it. We are very grateful to you for  
2 coming to see us this morning.

3 MR. NORDLUND: Thank you very much for your  
4 courtesy.

5 REV. FORBES: Thank you.

6 REV. TINGLEY: Thank you.

7 THE CHAIRMAN: Mr. Secretary?

8 THE SECRETARY: Mr. Chairman, Commissioners,  
9 the next submission is that of Mr. Ralph E. Browne.

10 Mr. Browne is present to speak to his brief which I now  
11 enter into the record as Exhibit No. 127.

12  
13 --- EXHIBIT NO. 127: Submission of Mr. Ralph E. Browne.

14  
15 SUBMISSION OF MR. RALPH E. BROWNE

16 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
17 day, Mr. Browne.

18 MR. BROWNE: Good day.

19 THE CHAIRMAN: You raise a point we are  
20 interested in, indeed. It relates to additional exemp-  
21 tions in respect of older people. Reading your letter  
22 and from what I have heard before I still have some  
23 difficulty seeing the reasons for exemptions for older  
24 people. If you would like to make a case with regard to  
25 increased pensions I could see a good reason for  
26 that. My difficulty, personally, is that where two  
27 people, one over 65 or over 70, if you like, is receiving  
28 \$5,000 and a man aged 30 is receiving \$5,000 why the  
29 older man should have lower taxes than the younger man.  
30 The younger man has more obligations to save his money



H4 1 and has probably got more concern about dependants  
2 either present or future. The older man has discharged  
3 a great number of his obligations. His requirements for  
4 funds, I think I have noticed myself, are generally not  
5 as much as a younger man. Therefore, why should he get  
6 a further tax exemption? Let us not mix it up with  
7 additional pensions with which I could sympathize. Tax  
8 exemptions we are talking about.

9 MR. BROWNE: The point in my mind is if the  
10 wife reaches 65, if they would increase the \$250 to  
11 \$750, so that she would receive \$500 extra than you  
12 receive, because as you get older you have a lot more  
13 obligations with old age. You have to live in an apart-  
14 ment where there is no stairs because of your condition.  
15 I have just recently went into that. I have just come  
16 out of the hospital. I tore an old wound and I got back  
17 into a place where there was no elevator. I pay \$180 a  
18 year to provide for medical - even if that were allowed  
19 as an exemption. I know you are allowed hospital  
20 expenses to 3%. My exemption amounts to \$100 that you  
21 give us.

22 I am not complaining. I will admit my income  
23 is up. My total income with pension and old-age pension  
24 is only \$3,600. That doesn't provide much for you to  
25 keep away for a change in the nasty months of the year.  
26 I am not complaining because I admit my income is up.

27 When the wife is eligible for old-age pension  
28 my exemption on her behalf drops to \$300. Granted then  
29 my income from old-age pension I could pay extra because  
30 I am getting extra money. I pay \$20 a month. With a



1 total income of about \$3,600 to pay \$240, and then \$180  
2 to provide for medical - you don't want to get into your  
3 little savings which we managed to keep through the First  
4 World War in case of emergency. If the \$500 were granted  
5 - it doesn't suit me to file two income taxes. You are  
6 familiar with that as I wrote in my letter to you. Don't  
7 accept it as a complaint.

8 If the tax could be lifted a little - the cost  
9 of living is up. The percentage that was shown on the  
10 papers, that doesn't work out because the things you eat  
11 are the ones that keep going up and something that  
12 remains on the shelf is down and you would never use  
13 that in a thousand years.

14 THE CHAIRMAN: Thank you, Mr. Browne. You see,  
15 our concern is if a group of taxpayers receives an exemp-  
16 tion it transfers part of their burden to other taxpayers.

17 MR. BROWNE: Yes.

18 THE CHAIRMAN: That is where taxes go. There  
19 isn't anywhere else for it to go. There has got to be a  
20 good reason for transferring the burden from one group to  
21 another group. You have given me some reasons. You have  
22 told us about living in an apartment, medical expenses.  
23 As I listen to you I wonder if that is enough to tax  
24 the older citizen less than the younger citizen. If he  
25 were here he would say yes. On the other hand, I am  
26 concerned about children; future children, and so on.  
27 He has got his side. It may be that you could justify  
28 lower taxes; I don't know.

29 MR. BROWNE: Without reducing tax you can't  
30 provide for a holiday at all. You figure yourself two



H6 1 of you on \$3,600 a year. You pay \$20 income tax, \$180  
2 in medical. If you get medical expenses above the per-  
3 centage you can take it off. \$180 is to avoid against  
4 that likelihood - if it was allowed to take that it  
5 would help. It is when you get to our age a few Victory  
6 Bonds put away and you run into an illness that it is  
7 eaten up, so rarely can you get into the hospital on a  
8 one-dollar a day basis. They are all full. You run  
9 into \$4 or \$5. You don't take it as a complaint. I  
10 admit my income is up.

11 THE CHAIRMAN: No, I am not. I am taking it,  
12 I think, in the spirit in which you are putting it forward,  
13 namely to improve the laws of the country.

14 MR. BROWNE: Sure.

15 THE CHAIRMAN: I am trying to draw out what you  
16 have to say. We want to hear it; all the various reasons.  
17 You are not the only one to make this point. We have  
18 heard this before and we will certainly hear it again.  
19 I am looking for good reasons. Any people that have come  
20 before us previously seem to have muddled up in their own  
21 mind the need for greater pensions. That may be; perhaps  
22 they do need better pensions. I don't think the cure for  
23 that is income tax. I think the cure is better pensions.

24 Have any of the rest any questions?

25 COMMISSIONER WALLS: I have one point: I  
26 suppose drugs are a factor in older age?

27 MR. BROWNE: Right. Now, because of this  
28 accident - I didn't realize I was as old as I was and I  
29 tore something. I am spending \$3 a week on one small  
30 bottle of medicine which is needed to keep my blood count.



H7 1 If I had realized how old I was - if you have never been  
2 sick ---

3 COMMISSIONER WALLS: You would say, generally  
4 speaking, that retired people pay a higher percentage of  
5 income for drugs than is the case of a younger man?

6 MR. BROWNE: Correct.

7 COMMISSIONER GRANT: I have no argument with  
8 your submission, Mr. Browne, but coming from another  
9 part of the country I would like to know what the nasty  
10 months are.

11 MR. BROWNE: Any time, either on the Prairie  
12 or here, to get out of the country in February is wonder-  
13 ful, because I know when I lived on the Prairie my wife  
14 used to say in February, "I don't know what it is, but  
15 I would like to stand in the street and yell. " I know  
16 what the feeling is.

17 THE CHAIRMAN: Mrs. Milne, any questions? I  
18 think that completes our questions.

19 MR. BROWNE: I appreciate very much being here,  
20 gentlemen.

21 THE CHAIRMAN: Thank you very much, Mr. Browne,  
22 for having come down. Mr. Secretary, is there anything  
23 further?

24 THE SECRETARY: I have three submissions to enter  
25 into the record, Mr. Chairman. These are submissions of  
26 the people who could not be present today. The first one  
27 is from Mr. S. A. Bensh which I will enter into the record  
28 as Exhibit 128.

29

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H3 1 --- EXHIBIT NO. 128: Submission of Mr. S.A. Bensh.

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THE SECRETARY: The next is from Lieutenant

Colonel F.H.M. Codville of Duncan, B.C., which I will  
enter into the record as Exhibit 129.

--- EXHIBIT NO. 129: Submission of Lieutenant Colonel  
F.H.M. Codville.

THE SECRETARY: The final submission is from  
the Convention of Baptist Churches of B.C. which I would  
like to enter into the record as Exhibit 130. Those are  
all the exhibits for this morning.

--- EXHIBIT NO. 130: Submission of the Convention of  
Baptist Churches of B.C.

THE CHAIRMAN: We will stand over to tomorrow  
morning at 9.30 a.m.

--- Adjournment

# ROYAL COMMISSION ON TAXATION

## HEARINGS

HELD AT

Vancouver, B.C.

VOLUME No.:

**36**

DATE:

August **14** 1963

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ROYAL COMMISSION ON TAXATION

Hearing held in Room 305,  
Vancouver Public Library,  
750 Burrard Street,  
Vancouver, British Columbia,  
on the 14th day of August,  
1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF VANCOUVER, BRITISH COLUMBIA

August 14, 1968

TOPICAL INDEX

VOLUME No. 3E

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( a ) <u>INTRODUCTION:</u>		
	Opening remarks of the Chairman	2367
( b ) <u>Submission: Of</u>		
	The Retail Merchants' Association of Canada ( B.C. Division) Inc.,	2367
12	Co-operatives, Credit Unions	2368- 2383
22	Excise Taxes, Excise Duties	2383 - 2390
46	Sales Tax - Federal	2385 - 2389, 2392
( c ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	2367, 2368
	<u>THE PROBLEMS OF RETAIL BUSINESSES V/S THE Co-OPERATIVES- TAX-WISE</u>	
	A question, would not the pricing policy of Co-operatives be altered so as to reduce their present profits if the recommendations presented were given effect to ? The answers and reaction to the question, the possible effect of.	2368 - 2370
	A reference and question related to merchandising policies, what stock would be maintained if pricing out policies were established by Co-operatives ? .	2370, 2371
	A reference to application of the patronage dividend, the effect of, a differentiat- ion.	2371, 2372, 2377, 2378, 2380
	A reference and discussion on the point of ( The 3 year tax holiday) Section 85(5) of the Income Tax Act; The main contention that this has never applied to business. The reactions to the points raised.	2372 - 2377
	A reference to the low 23% Corporate rate of tax being of assistance to small incorporated businesses, but, it does discriminate against the person not in the Corporate form.	2375, 2376



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1 The Retail Merchants' Association of Canada August 14, 1963  
2 ( B.C. Division ) Inc., Volume No. 36

3	<u>Titles</u>	<u>Description</u>	<u>Page</u>
4	( c )	<u>SPECIFIC DISCUSSIONS: (continued )</u>	
5		A reference to page 15 of the brief being related to questions pertaining to the Ontario Division submission of the Association. Volume No. 24- May 21, 1963	2379, 2380
6		pages 1710-1767.	
7		A point and reference to distinction between Consumer Co-operatives and Producer marketing Co-operatives , the opposition to the present method of taxing etc.,	2380, 2381
8		A reference to a point relative to payment of a 15% withholding tax by Co-operatives to non-resident shareholders, first paragraph page 17 of the brief. A discussion of the point and the reaction thereto.	2381
9		A reference to example on page 15 of the brief Re: comparison of taxes Co-operatives v/s Ordinary Corporations. A general review of.	2381 - 2383
10		A reference to the point of duty-free stores, the expansion of and the ultimate resultant effect of from the retail merchants' viewpoint business-wise, tax-wise and treasury-wise.	2383 - 2385 2388 - 2392
11		A point and question in relation to exports being free of Sales Tax, what difficulties would there be for all members to take advantage of that ? The reply to the point and procedure involved, the volume of the export sales relative thereto, some concise exemplifications of.	2385 - 2389, 2392
12		Closing remarks of the Chairman	2391, 2392

13  
14  
15  
16  
17  
18  
19  
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21  
22  
23  
24  
25  
26  
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28  
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III

August 14, 1963

Volume No. 36

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( d ) <u>Submission: Of</u>		
Mr. George J. Smith, Surveyor West Vancouver, B.C.		2393
Opening remarks of the Chairman		2393, 2394
3 Business Income Taxation - Capital Cost Allowances		2401
19 Economic Growth		2396 - 2400 2403 - 2406
21 Estate Taxes, Gift Tax.		2404
27 Incidence of Taxation, and Income Distribution.		2394 - 2402, 2405 - 2406
29 Interest Rates and Money Supply		2407, 2408
46 Sales Tax - Federal		2403
47 Sales Tax - Provincial- Municipal		2403
( e ) <u>SPECIFIC DISCUSSIONS:</u>		
Preamble		2393, 2394
Qualifications of the participant, his occupation and interest in taxation.		2393, 2394
A point and reference to and comparison of, money through taxation of business to pay the cost of Government and social services having no cash return. v/s The same money retained in the business community and invested in new production generates a new cash return. Some viewpoints in support of the arguments as expounded. The reactions to the point raised.		2394 - 2406, 2408
A reference to depreciation ( Capital Cost Allowance) the suggestion of the revamping of the basis and system or method of application, the profit element involved. The reaction to the point raised.		2401, 2402
A reference to exemption from Sales Taxes of machinery and equipment and buildings. Some exemplifications of and debatable points presented.		2403, 2404
A point in respect to Estate Taxation its effect on disposal of Canadian business to foreign interests, the suggestion of some relief to overcome the practice. some of the arguments in support of.		2404



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Mr. George J. Smith  
West Vancouver, B.C.

August 14, 1963

Volume No. 36

Titles	Description	Page
( e )	<u>SPECIFIC DISCUSSIONS: ( continued )</u>	
	The suggestion that present Revenues which Governments are receiving should be reduced, reasons expounded.	2404, 2405
	A point raised in respect to high cost of obtaining money and the end result from the borrowers or lenders point of view.	2407, 2408
	Closing remarks of the Chairman	2408, 2409
( f )	<u>Submission: Of</u>	
	<u>Lindsay Models and Metalcrafts Limited</u>	2409
	Opening remarks of the Chairman	2409, 2410
II	<u>Business Income Taxation- Specific Industries</u>	2409 - 2422
46	Sales Tax - Federal	2409 - 2422
49	Tax Administration	2420, 2421
( g )	<u>SPECIFIC DISCUSSIONS:</u>	
	Preamble	2409, 2410
	The problems of Sales Tax application to a specific type of Engineering service of building designed models of proposed projects in conjunction with Company, Architectural and Engineering requirements to obtain a perspective. The arguments and viewpoints expressed in relation to the problems encountered.	2410 - 2420
	A reference and statement relative to the Sales tax Departments attitude, procedures and practice as encountered.	2420, 2421
	Closing remarks of the Chairman.	2421



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Vancouver, British Columbia.

August 14, 1968

Volume No. 36

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( h ) <u>Submission: Of</u>		
<u>The B.C. Hotels Owners' Association</u>		2422
Opening remarks of the Chairman		2422
2 Business Income Taxation - Business Expenses		2437
3 Business Income Taxation - Capital Cost Allowances		2437 - 2442
10 Business Income Taxation - Reserves		2427 - 2433
II Business Income Taxation - Specific Industries		2422 - 2443
SI Tax Exempt Entities		2433 - 2436
( i ) <u>SPECIFIC DISCUSSIONS:</u>		
Preamble		2422 - 2425
Nature of the Association its functions, objectives and purpose.		2423, 2424
<u>THE PROBLEMS OF THE HOTEL INDUSTRY</u>		
A reference and comparison of new hotels with older hotels, the relative costs of and the present competitive factors, business operating expenses and income, patronage of and promotional activities.		2425, 2426 2429, 2431
A point raised in respect to the " Beverage Room operations of the Hotel " the increased costs of operation against a restricted Income, due to Government regulations and price control.		2426 - 2429 2432, 2433
A reference to the suggestion of an Investment Reserve being allowed before payment of taxes, applicable to all businesses.		2427 - 2433
A reference and question relative to the raising of Capital for hotel expansion, it is more difficult to obtain than any other kind of business. The reasons recited and the basic problems encountered.		2427 - 2429 2431
A few points in respect to occupancy and the resultant effect on hotel operations from other types of accommodation and over expansion. The tourist aspect and seasonal problems.		2430, 2431



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The B.C. Hotels Owners'  
Association

August 14, 1963

Volume No. 36

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( i )	<u>SPECIFIC DISCUSSIONS: ( continued )</u>	
	A reference to the recommendation of the use of a flexible formula for economic growth as set forth in the brief. A general review of, some examples presented and pertaining thereto.	2432, 2433
	A reference and recommendation that the non-profit tax exempt organizations, clubs and associations should be compelled to incorporate under the Companies Acts. so as to remove unfair competition when they cater to others outside of their own membership or enter commercial ventures.	2433 - 2436
	A question as to any suggestion as to how one would determine what competitors outside of the Association are paying taxes? What yardstick would one use? The reply and reactions to the question.	2435, 2436
	A reference to matter of expense accounts for commercial travellers, convention and sales meetings as related to the term expense living referred to in the United States drive to curb the excessive use of for tax purposes. What and how has it effected Canadian Hotels to date.	2437
	A point raised relative to Equipment Write-Off- such as heating equipment, air-conditioning, elevators and escalators, the suggested separation of from the building or structure for Capital Cost Allowance under an identified Class. and a higher rate classification . A general review of the proposals presented in support of the arguments expressed.	2437
	A point raised in respect to using the " Straight-Line-Basis" for the write off of carpeting in hotels and such places of accommodation, the reasons expressed in support of the suggestion, and the reactions to the point.	2441, 2442
	Closing remarks of the Chairman	2443

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Vancouver, British Columbia.

August 14, 1963Volume No. 36

<u>Titles</u>	<u>Description</u>	<u>Page</u>
( j ) <u>Submission: Of</u>		
Mr. G.M. Bell	Newspaper Publisher	2443
	Calgary, Alta	
	Opening remarks of the Chairman	2443, 2444
4	Business Income Taxation- General Concept of Business Income.	2450 -2455
5	Business Income Taxation-Incentive Measures	2455 - 2459
12	Co-Operatives, Credit Unions.	2466
27	Incidence of Taxation and Income Distribution	2444 - 2450 2460 - 2466
46	Sales Tax - Federal	2450, 2451
( k ) <u>SPECIFIC DISCUSSIONS:</u>		
	Preamble	2443, 2444
	The problems related to the distinction between Income and Capital for tax purposes, a general review of the complexities that arise in the determination of and the tax assessment and penalties imposed during the interim period pending the tax department and court findings or decisions. The arguments pertaining thereto.	2444 - 2450
	A reference to Capital Gains Taxation	2450, 2453 - 2455
	A reference to Sales Taxation.	2450 - 2452
	The suggestion of a straight line levy on Income tax application.	2453
	A reference to suggestion that, as an incentive to Canadian Investors or investment losses in developing resources should be allowed to a greater extent against personal income, some viewpoints and exemplifications of the point raised.	2455 - 2458
	A reference and points raised as to the recommendation for incentives related to the Corporations in the extractive Industry.	2458, 2459
	A reference to incidence of taxation in respect to Capital accretion and life Companies and as related to a tax benefit.	2460 - 2466
	A point of reference to Co-operatives in relation to withheld Income.	2466
	Closing remarks of the Chairman	2467



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Vancouver, British Columbia.

August 14, 1963

Volume No. 36

INDEX OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
I31	Brief of The Retail Merchants' Association of Canada ( B.C. Division) Inc.,	2367
I32	Brief of Mr. George Smith, West Vancouver, B.C.,	2393
I33	Brief of Lindsay Models and Metalcrafts Limited.	2409
I34	Brief of The B.C. Hotels Owners' Association	2422
I35	Brief of Mr. G.M. Bell, Calgary, Alta.	2443
I36	Brief of Mr. C. Beadnall, Duncan, B.C.	2467
I37	Brief of Mr. Norman L. Hicks, Sydney, B.C.	2467



A2 1 --- On commencing at 9.30 a.m.

2 THE CHAIRMAN: Mr. Secretary, shall we commence?

3 THE SECRETARY: Good morning, Mr. Chairman and  
4 Commissioners. The first brief is being presented by the  
5 Retail Merchants' Association of Canada, the British  
6 Columbia Division. Mr. T.H. Phillips, President of the  
7 Association of British Columbia, together with Mr. Ray E  
8 Hunt, the General Manager, are here.

9 Mr. Phillips will speak to the brief which I  
10 now enter into the record as Exhibit No. 131.

11 THE CHAIRMAN: Exhibit No. 131.

12  
13 --- EXHIBIT NO. 131: Submission of the Retail Merchants'  
14 Association of Canada (B.C. Division)  
15 Inc.

16 SUBMISSION OF THE RETAIL MERCHANTS' ASSOCIATION  
17 OF CANADA (B.C. DIVISION) INC.

18 Appearances: Mr. T.H. Phillips  
19 Mr. Ray E. Hunt

20 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
21 morning, Mr. Phillips. Don't stand unless you wish to do  
22 so. We have read your brief with considerable interest.  
23 We will, in due course, have a few questions to ask to  
24 assist us in this. Before doing so, if you would like to  
25 tell us something about your organization or generally  
26 introduce your submission, we would be very glad to hear  
27 from you.

28 MR. PHILLIPS: Thank you, Mr. Chairman. Mr.  
29 Chairman and Commissioners, the foreword to our brief  
30 pretty well gives an idea of the type of brief it is, and



A3 1 the Retail Merchants' Association, what its aims and objec-  
2 tives are, are pretty well covered in the introduction.  
3 We are quite prepared to do our best to answer any ques-  
4 tions that you have in regard to our submission. If we  
5 cannot answer them, we will certainly endeavour to find  
6 out the answer for you. That is all I have to say.

7 THE CHAIRMAN: Thank you very much. Now, there  
8 are two subjects, really, that you deal with here: the  
9 matter of co-operatives and their tax treatment, and these  
10 duty-free stores. I think we will take them one at a  
11 time. When we get through one, we will move on to the  
12 other one.

13 As to co-operatives, one thing we are very much  
14 interested in is what you believe would result from your  
15 recommendations.

16 Would not the pricing policy of co-operatives  
17 be altered so as to reduce their present profits if your  
18 recommendations were given effect to?

19 MR. PHILLIPS: I would ask Mr. Hunt to answer  
20 that.

21 MR. HUNT: That is a possibility. That their  
22 pricing - you mean the pricing-out policy in order to  
23 compensate? It is quite possible that that would occur.  
24 Now, if it did occur, we think that perhaps it would be a  
25 good thing if they did price out to meet the competition  
26 because, quite frankly, in our opinion this sort of policy  
27 would separate the men from the boys and it would prove a  
28 point there as to which method would probably be most  
29 efficient.

30 THE CHAIRMAN: Would you expand on that a little



A4 1 bit? Separate the men from the boys.

2 MR. HUNT: Well, if they are going to price out  
3 - in other words, price down and absorb the tax which they  
4 would normally pay by being taxed the same as ordinary  
5 businesses - now, we would be interested in seeing just  
6 how low their price could go under such a policy.

7 However, we would not be particularly in favour  
8 of that. All I can say at the moment is it would be  
9 interesting to see what would happen if they did indulge  
10 in such a policy.

11 THE CHAIRMAN: I suppose reduction of competitor  
12 prices can only have an adverse effect on your business?

13 MR. HUNT: That is quite true, sir.

14 THE CHAIRMAN: It would tend to draw customers  
15 away from your members and into co-operative shops?

16 MR. HUNT: That is quite possible, sir.

17 THE CHAIRMAN: What you would be interested in,  
18 of course, is the extent to which this would operate?

19 MR. HUNT: That is correct, yes.

20 THE CHAIRMAN: The extent would depend upon the  
21 amount of the reduction in the price, I suppose?

22 MR. HUNT: And also their ability to merchandise  
23 in strict competition, yes.

24 THE CHAIRMAN: I assume that they are fairly  
25 good merchandisers or they wouldn't be in business, despite  
26 the alleged tax advantages.

27 MR. HUNT: Well, of course, we feel that the tax  
28 advantages which they do enjoy are the major reason for  
29 them being competitive at all. If you did have that much  
30 greater margin of mark-up in your operation, naturally you



A5 1 are going to enjoy an advantage over your competition.

2 COMMISSIONER WALLS: Just a supplementary ques-  
3 tion to that: if my memory serves me correctly, was it not  
4 a fact that in 1956, when they had the Royal Commission on  
5 Price Spreads on Food Products, that the representations  
6 made by the retail merchants then were not made against  
7 co-operative competition, but against the large chain  
8 stores and supermarkets, blaming them principally for  
9 creation of loss leaders and price wars?

10 Now, are you not just going to get into the same  
11 situation as you were worried about then? As I understand  
12 it, up until now the principle of the co-operative has  
13 been to maintain competitive prices in the areas that they  
14 operate, and then pay the difference in the way of patro-  
15 nage refund or patronage dividend. Now, if they price out  
16 then are you not going to create the price war situation  
17 that you were opposed to in 1956?

18 MR. HUNT: Well, you have a good point there, sir.  
19 You might be interested to know - or you probably do -  
20 that R.M. May is also conducting another campaign in  
21 regard to retail price maintenance, and representations  
22 are being made direct to the Federal Government which we  
23 hope will be effective.

24 I hadn't thought of the connection until you  
25 brought up this particular point but I can see that it  
26 will tie in very neatly.

27 COMMISSIONER MILNE: I wonder if Mr. Hunt might  
28 just repeat possibly, or expand a little on what you indi-  
29 cate might happen in merchandising policies; that is the  
30 stock that would be maintained if pricing<sup>out</sup> policies were



A6 1 established.

2 MR. HUNT: That is the stock which would be main-  
3 tained?

4 COMMISSIONER MILNE: The merchandise which would  
5 likely be available - would there be any difference in  
6 pattern?

7 MR. HUNT: I doubt it very much. I don't see  
8 how it would influence the breadth of the stock or the  
9 depth of the stock. I doubt it very much.

10 THE CHAIRMAN: What has been the main complaint  
11 we have heard in this area from people like yourself is  
12 related to the fact that patronage dividends are frequently  
13 not disbursed in cash; disbursed by note or stock or some-  
14 thing of that kind. The cash remains in the business and  
15 is used to expand.

16 MR. HUNT: Yes.

17 THE CHAIRMAN: And it has been stated that this  
18 expansion is based on tax-free funds. To correct that  
19 would require a change in Section 75 which would state  
20 that to qualify for patronage dividends they must be paid  
21 out in cash. Would that not be the major competitive  
22 advantage? Would that be your number one trouble?

23 MR. HUNT: I would think that it would be  
24 certainly high in the list. There are three, I believe,  
25 points of major importance. Now, the point you are getting  
26 at is that they are using them for capital expansion.  
27 They are using the advantage to expand on the additional  
28 funds that are available to them tax-free, and that would  
29 certainly be one of the three major points in our program  
30 at the present time, to oppose them.



A7 1 THE CHAIRMAN: I am not saying it is not an  
2 advantage, but I am saying it has been represented to us  
3 as an advantage.

4 MR. HUNT: I realize that, sir. Excuse my  
5 wording.

6 THE CHAIRMAN: Before we move on to any other  
7 aspect, do you have any questions?

8 COMMISSIONER WALLS: I notice that in one place  
9 you state that the three-year tax holiday has never  
10 applied to business. I don't know whether<sup>or not</sup> you include  
11 mines as being a business because, of course, the  
12 mines have had the three-year tax holiday when they are  
13 started.

14 MR. HUNT: Yes.

15 COMMISSIONER WALLS: And you consider this wrong.  
16 We have had a number of representations, I might tell you,  
17 in certain areas of this country that the 3% tax holiday  
18 should be extended to other types of<sup>new</sup> business  
19 Now, why do you consider it as a wrong, which is the term  
20 you use in your brief?

21 MR. HUNT: I can answer that. As a matter of  
22 fact, that was one point I made some notes on here, if I  
23 may refer to these notes.

24 THE CHAIRMAN: By all means.

25 MR. HUNT: Now, you mentioned mines. I have  
26 included oil and gas producers and general companies; if  
27 I may elaborate just a little?

28 COMMISSIONER WALLS: All right.

29 MR. HUNT: In these cases, there are special  
and justifiable reasons for the law being framed as it is



and a close examination will probably reveal that favoured treatment was neither intended nor achieved. For instance, companies engaged in oil and gas production and mining are given special depletion allowances because it is realized that part of their sales represents not merely income on their capital but a depletion of their capital assets, the oil and gas or the minerals in the ground.

Now, in the case of life insurance companies, we all know they receive different tax treatment than other companies, ordinary corporations. They are taxed in the same way. All life insurance companies are taxed in the same way so there are no special favours accorded one particular company just because of the manner of its constitution.

The special arrangements are made because of the nature of the industry and not because of the constitution of the company. To compare such situations with the favoured and unjustified treatment granted co-operatives is misleading. In any event, these allowances are available to both co-operatives and ordinary companies engaged in these industries.

Those are the notes I had and if one takes into account the fact that they are depleted, their capital asset is in the ground, in the case of oil and gas producers and mining companies. It is a different situation entirely, in my opinion, and you mention that there is a feeling that these special allowances should be extended to other areas. Well, if the areas justified such treatment, I would think they are a good thing, if they are similar to this - in the same case as mines, oil and gas producers,



A9 1 et cetera.

2 COMMISSIONER WALLS: But you wouldn't want it  
3 given as a benefit to your members, to small retail  
4 merchants starting business. They wouldn't wish a three-  
5 year tax holiday?

6 MR. HUNT: As far as the retail merchants  
7 starting off, many of them have financial difficulties in  
8 the first few years, anyhow. Many of them don't, but many  
9 of them do and it is not going to make too much difference  
10 to the small retail merchants starting off. However, on  
11 the scope that co-operatives have been going into these  
12 things, and developing new co-ops under the wing of other  
13 larger holding co-ops, it is an entirely different situa-  
14 tion but most retail merchants who have their heads screwed  
15 on right - if you will excuse the expression - do antici-  
16 pate a loss during their first couple of years, and they  
17 are very happy if they make a profit. This one fact alone  
18 accounts for the very high turnover of new businesses in  
19 bankruptcy. It is a fact that there is 100% turnover of  
20 new businesses every five years. This is substantiated by  
21 the Department of Trade and Commerce figures. A hard core  
22 of about 20 or 30 percent survive throughout and continue  
23 through the years and any new business coming in, there is  
24 100% turnover every five years. Does that answer your  
25 question?

26 COMMISSIONER WALLS: I am not sure it does. I  
27 don't think you have quite told me whether the Retail  
28 Merchants' Association would like also to have the three-  
29 year tax holiday.

30 MR. HUNT: I would like to reserve an answer to



A10 1 that, sir, if I may. It infringes on policy for us.

2 COMMISSIONER PERRY: I was just wondering if at  
3 the same time you might make some comment on the reduced  
4 rate of corporate tax that is given to small businesses.  
5 As I read your brief, this would come under the heading of  
6 a wrong.

7 MR. HUNT: Would you be a little more specific  
8 on that, Mr. Perry?

9 COMMISSIONER PERRY: Well, you know the way the  
10 corporate tax rate works. That is, there is a low bracket  
11 rate of 23%.

12 MR. HUNT: Yes.

13 COMMISSIONER PERRY: Which obviously is designed  
14 to assist small businesses.

15 MR. HUNT: Yes, it is.

16 COMMISSIONER PERRY: And one hopes that it does.  
17 Well, is this the sort of concession that you feel is  
18 undesirable? Would you put this in the same class as a  
19 three-year tax-exempt period?

20 MR. HUNT: I don't see the connection myself.  
21 I don't think it is undesirable for the business making up  
22 to \$35,000 to receive a 23% - of course, that varies  
23 slightly from province to province. We will use the 23%  
24 as the figure.

25 COMMISSIONER PERRY: Why is it more or less  
26 desirable that they pay a reduced rate than that they be  
27 given a three-year exemption for their first three years?

28 MR. HUNT: Because one is a continuing thing and  
29 one is a beginning thing, isn't it? The three-year tax  
30 holiday, to start off with, if you apply it as Mr. Walls



All 1 has mentioned, the retail merchants or merchant, perhaps,  
2 if he is an aggressive and efficient merchant, he hopes to  
3 be beyond that 23% exemption in the not too distant future.

4 In other words, that is a continuing thing.

5 Whereas, the three-year tax holiday is an initial beginning,  
6 isn't it?

7 COMMISSIONER PERRY: You don't feel that this is  
8 an undesirable concession, in other words?

9 MR. HUNT: I don't think so, no.

10 THE CHAIRMAN: I think, Mr. Perry, that you are  
11 probably reading the paragraph on page 16 and if so, I  
12 think there is room for misunderstanding of the second  
13 sentence:

14 "The discrimination which exists in our  
15 present legislation is proportionately as  
16 great or greater in the case of larger  
17 business concerns taxable at rates up to  
18 52%."

19 I think he means discrimination between co-opera-  
20 tives and ordinary corporations.

21 COMMISSIONER PERRY: No. I was reading a para-  
22 graph in the middle of page 10:

23 "It is our view that the correction of tax  
24 inequities must be carefully designed to  
25 achieve equity between all taxpayers and it  
26 is a well-established fact that two wrongs  
27 do not make a right."

28 This reduced corporate rate certainly discrimi-  
29 nates against the person not organized in corporate form.  
30 The sole proprietor gets no such concession.

MR. HUNT: I see your point, sir, yes.

COMMISSIONER PERRY: This is the grounds on which you are opposing the extension of the three years to every one?

MR. HUNT: The brief states policy. If I may, I could go into that in considerably greater detail and forward our findings to you. I will be pleased to do that.

THE CHAIRMAN: Thank you.

COMMISSIONER PERRY: I am just wondering if you had any philosophy on patronage dividends from merchandising co-operatives, apart from the fact that you assimilate them to ordinary dividends of a private company. Can it not be argued that these are very similar to price reductions offered by any organization that is in business?

MR. HUNT: You mean in the sense of discounts?

COMMISSIONER PERRY: Yes.

MR. HUNT: Trading stamps, premiums, gimmicks, and that sort of thing?

COMMISSIONER PERRY: Yes. Special prices to employees, and all this sort of business.

MR. HUNT: I do have some notes on that particular area, too. Yes, it is referred to specifically. It is the feeling of the Association that there is a tremendously important distinction between patronage dividends and coupons, discounts and other forms of promotional aids. Discounts are paid to someone whose interests are different from the person paying the discount.

Here the vendor wants to realize a competitive price for his product but, on the other hand, seeks to achieve a greater volume and, of course, he must meet the



A13 1 rigours of competition.

2           On the other hand, co-operatives are organized  
3 to increase the gain of their members. In the case of  
4 patronage dividends, the interests of the vendor and the  
5 customer who receives the dividend are the same. They  
6 are identical. What the member of the co-operative is  
7 receiving is a return on the capital he and his fellow  
8 members have invested in the co-operative.

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B/dpw 1 It is a profit which arises not from the co-operatives'  
2 dealings with the members but with its suppliers and other  
3 third parties. The patronage dividend is in just the same  
4 category as returns on the money invested in business.  
5 The one is paid in proportion to the amount of money tied  
6 up in business and the other in proportion to the amount  
7 of business done, but both represent returns on capital  
8 and share of the profits, and as such it is a matter of  
9 simple justice that both should be taxed in the same way.

10 Those are, incidentally, the findings of the  
11 recent study on co-operatives that was carried out by the  
12 Canadian Tax Foundation. Does that answer your question,  
13 sir?

14 COMMISSIONER PERRY: It is an answer but I don't  
15 think it answers my question. However, we are going to be  
16 a long time.

17 MR. HUNT: I don't envy you for the next several  
18 months.

19 THE CHAIRMAN: We thank you for the example on  
20 page 15 which relates to our questions in the Ontario  
21 submission.

22 MR. HUNT: We have endeavoured to answer several  
23 of your questions there, Mr. Chairman. I have photostats  
24 of the original if you want them entered for the record.

25 THE CHAIRMAN: Originals of what?

26 MR. HUNT: Of the original figures shown here,  
27 the financial statements. Are you interested in them?  
28 They are not too good. I guess it was a wet copying  
29 machine and it was too wet.

30 THE CHAIRMAN: Do we not have the original



B2 1 figures on page 15?

2 MR. HUNT: Yes, but I thought perhaps you might  
3 like photostats of the originals.

4 THE CHAIRMAN: I think we are perfectly happy  
5 with what we have got.

6 COMMISSIONER GRANT: In your opposition to the  
7 present method of taxing co-operatives do you draw any  
8 distinction between the consumer co-operatives and the  
9 producers, or, as you call them, the marketing co-operatives?

10 MR. HUNT: Do we draw any distinction?

11 COMMISSIONER GRANT: Yes.

12 MR. HUNT: Our brief is generally applicable to  
13 both of these areas. We have lumped them together in  
14 discussing co-operatives in our brief. We have excluded  
15 the other three forms, the financial co-operatives, and  
16 so on and so forth. The intent is - basically our treat-  
17 ment of those two forms of the five co-operatives are  
18 basically the same.

19 THE CHAIRMAN: You note the fact that patronage  
20 dividends paid to the producer co-operatives are subject  
21 to tax in the hands of the recipient.

22 MR. HUNT: Yes.

23 COMMISSIONER GRANT: Whereas that is not true in  
24 the case of the consumer co-operatives.

25 MR. HUNT: I believe, also, to follow that out -  
26 and I was following the proceedings the other day and I  
27 believe the Fisheries Association made that point; that  
28 they were operating in a disadvantage because of a co-op  
29 advantage of Prince Rupert Co-op Association. They would  
30 be in a much better position to assess a co-operative of



B3 1 that type than I would at the moment. I noticed that they  
2 made that point. It seems to be cropping up quite  
3 frequently all along the line.

4 COMMISSIONER GRANT: The consumer co-op is, of  
5 course, in direct competition with the retail merchants.

6 MR. HUNT: Yes.

7 COMMISSIONER GRANT: The producer co-op wouldn't  
8 be in competition with the retail merchant to nearly the  
9 same extent.

10 MR. HUNT: Not to the same extent, but to some  
11 extent, because they would operate their own retail outlets  
12 in their overall complex. In other words, as I mentioned  
13 before, the profits accrue as a result of monies which  
14 they make as a result of dealings with suppliers and so  
15 on and so forth. If you have a co-op producer supplying  
16 a consumer co-op the advantages are fairly obvious.

17 COMMISSIONER WALLS: I was a little interested  
18 in the top paragraph on page 17 of your brief in which you  
19 deal with the 15% withholding tax which you say the co-  
20 operatives have to pay to the non-resident shareholders.  
21 Is it not one of the features of the co-operatives that  
22 the shareholders are all Canadian residents and therefore  
23 there would be no opportunity for a 15% withholding tax?

24 MR. HUNT: It would appear so, sir. I would  
25 think most co-op shareholders are Canadian residents.  
26 It is conceivable that those located close to the border  
27 would have American participants, but to what extent I  
28 am not prepared to say. I would say your statement is  
29 basically correct.

30 THE CHAIRMAN: I would just like to run through



B4 1 the example on page 15 and make sure I have it clear. I  
2 think I understand it all right. You are comparing taxes  
3 on co-operatives with taxes on ordinary corporations there  
4 and you assume that both have an income of \$25,000 and  
5 both put back into the business one-half of their profits.

6 Patronage dividends estimated at 90% including  
7 \$12,500 satisfied by scrip or loan and \$10,000 satisfied  
8 in cash. \$12,500 is half the profit put back into the  
9 business as stated in the heading; is that correct?

10 MR. HUNT: That is right, sir.

11 THE CHAIRMAN: So we have taxable income of  
12 \$2,500 and tax paid of \$575. Coming down below the tax  
13 payable is 23% of \$25,000, \$5,750. The profit, I would  
14 think there would be, although I think I am quibbling,  
15 would be \$19,250. Half would be distributed and half  
16 retained. You have as tax \$1,250. You are really saying  
17 they retain one-half of the profit before taxes.

18 MR. HUNT: It would appear so.

19 THE CHAIRMAN: When you get the shareholders  
20 paying 30% income tax less dividends - less 10% would  
21 that not be a fairly high rate for shareholders? I  
22 suppose you are saying this is the marginal rate rather  
23 than the average rate?

24 MR. HUNT: I didn't make up this particular state-  
25 ment and I don't feel qualified to give an opinion on that.  
26 It seemed reasonable to me when I read it over. It  
27 appeared reasonable. I didn't question it in the manner  
28 that you have. As I say, I didn't make that statement and  
29 therefore I really don't know, but it does seem to be  
30 reasonable to me. The people who would be participating



B5 1 in dividends - it is quite possible that they would average  
2 at that particular percentage. I do feel it is reasonable.

3 THE CHAIRMAN: Let me see if I understand the  
4 figures over the page. The co-operative is left with  
5 \$11,925 - that is \$12,500 less tax.

6 MR. HUNT: That is right, sir.

7 THE CHAIRMAN: The corporation is left with  
8 \$6,750.

9 MR. HUNT: That is right.

10 THE CHAIRMAN: That, I think, is \$12,500 less  
11 corporation tax of \$5,750.

12 MR. HUNT: Yes.

13 THE CHAIRMAN: I think I follow that. If, on the  
14 other hand, the entire dividend was paid out in cash in  
15 the co-operative there would be nothing left to it; any  
16 money it secured would have to be paid back in. It would  
17 still have to pay \$575 in taxes.

18 MR. HUNT: It would have nothing for re-investment  
19 in capital expansion under such circumstances.

20 THE CHAIRMAN: I have no further questions on  
21 that point.

22 COMMISSIONER PERRY: I was just looking up the  
23 level at which the 30% rate applies for taxable income.  
24 For a married man it would be \$10,000 gross income.

25 THE CHAIRMAN: Let us move on to the next point  
26 which is duty-free stores.

27 MR. HUNT: Yes.

28 THE CHAIRMAN: That is toward the end of your  
29 submission; in fact, it is on page 20. Mr. Walls has  
30 some comments on this.



B6

1 COMMISSIONER WALLS: I am quite sympathetic with  
2 this whole section of your brief. The only question I  
3 would like to put to you is: the argument has been put  
4 forward that the relative amount that the tourists  
5 spend in these stores is quite small and that by offering  
6 the facilities you encourage more tourists into the count  
7 and a greater part of their spending is then with the  
8 legitimate merchant and in the long run we maybe get more  
9 benefit than harm out of it. I would like your reaction  
10 to that.

11 MR. HUNT: We think that - are you through, sir?  
12 I am sorry to interrupt.

13 COMMISSIONER WALLS: Yes.

14 MR. HUNT: We have covered that point very  
15 thoroughly in the brief. It is estimated - it is not an  
16 estimate, it is very close to the fact - that about 20  
17 cents of every tourist dollar is spent in the retail shop  
18 buying merchandise, not service; 20 cents on the retail  
19 dollar. You say the amount is small. Perhaps it is not  
20 staggering at the moment, but the expansion of the stores  
21 will contribute to that amount. It is growing all the  
22 time. There were four more opened this year. If you  
23 figure on the basis in British Columbia last year the  
24 tourists left \$150 million in their spending. If 20 cents  
25 of every dollar was spent in the retail store that amounts  
26 to quite a considerable amount.

27 With the expansion of duty-free shops, and  
28 there have been two additional ones this year in British  
29 Columbia alone, most of these duty-free stores have a  
30 tendency to locate close to the borders, and in the case



37 1 of the Island they are close to a ferry which has access  
2 to the American shore. The danger here is rather than  
3 contributing to overall tourist spending it could induce  
4 them to slip over the border for 48 hours, make purchases,  
5 and slip back without proceeding inland. It is a very real  
6 danger.

7 COMMISSIONER WALLS: One other question, then,  
8 along the same lines: this privilege of supplying these  
9 people duty-free goods is really available to any merchant;  
10 that is, he can sell them and have it delivered out of  
11 bonded warehouses. Do you envisage your larger retailers  
12 in years to come are going to competitively step into the  
13 same business?

14 MR. HUNT: By all means. One of the major points  
15 we have made in our brief, Mr. Walls, is that this doesn't  
16 represent a very great drain on the Federal Treasury - I  
17 shouldn't say drain - denial to the Federal Treasury at  
18 the present time, but if such things as you have mentioned  
19 do occur, which they eventually will, because merchandising  
20 is always the type of industry where they fight back with  
21 every device they can find; when that does occur the  
22 drain on the Federal Treasury will become  
23 very pronounced - rather, denial.

24 It wasn't there to drain in the beginning.

25 THE CHAIRMAN: The law now contemplates exports  
26 being free of sales tax. We are primarily concerned about  
27 taxation. What difficulties would there be for all your  
28 members to take advantage of that?

29 MR. HUNT: Any member can withdraw sales tax  
30 by application.



B8 1 THE CHAIRMAN: I am asking what the procedure  
2 would be. You state the larger merchandisers will proceed  
3 to sell goods for export tax-free. What is the procedure  
4 involved in doing so.

5 MR. HUNT: In doing so, there are two methods  
6 involved. You can operate duty-free stores in two ways.

7 THE CHAIRMAN: For your members to do this.

8 MR. HUNT: Yes.

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B9 1 You can apply to the Customs and Excise Division of the  
2 Department of Revenue for permission to operate a bonded  
3 warehouse. This, of course, would be possible for large  
4 - your large companies to do so. The second method is to  
5 use custom drawback arrangements. It is very simple but  
6 it takes an awful lot of paper work. In the bonded ware-  
7 house system you have two locks kept on the door and you  
8 have to have the customs officer to come back and forth.  
9 You have one and the custom officer has the other one.  
10 Those are the two ways you can use custom drawback  
11 arrangements. That is basically the answer to the ques-  
12 tion.

13 There is another system which has become, is  
14 starting to become, prevalent; that is simply sending  
15 the orders to European supply houses to process the orders  
16 and ship direct from Europe. This doesn't constitute  
17 the volume the bonded warehouse system does.

18 THE CHAIRMAN: You don't quite get the point  
19 I want. Perhaps there isn't anything to my point. If  
20 an American tourist walks into a shop in the City of  
21 Vancouver and says he wants to buy something, but being  
22 for export it shouldn't be subject to sales tax; is  
23 there any way a merchant can sell that to him without  
24 charging sales tax?

25 MR. HUNT: Yes.

26 THE CHAIRMAN: I am not talking about duty.

27 MR. HUNT: Yes, sir, it is done all the time.

28 THE CHAIRMAN: Just how is it done for  
29 shipping outside the country?

30 MR. HUNT: Shipping direct to the United States



B10 1 practically all of this goes to the United States. I am  
2 using that country as an example. It is shipped directly  
3 there and he simply makes an application for rebate on  
4 sales tax from the Federal Government.

5 THE CHAIRMAN: Is there much volume in those  
6 kind of sales?

7 MR. HUNT: There hasn't been until quite  
8 recently.

9 THE CHAIRMAN: Would that volume have been  
10 stimulated to any extent by the duty-free stores?

11 MR. HUNT: Undoubtedly.

12 THE CHAIRMAN: Your representation is that that  
13 volume would increase as duty-free stores increase?

14 MR. HUNT: It will. There is no doubt of that.

15 THE CHAIRMAN: That is a good thing. It  
16 encourages export of Canadian products which is why  
17 that exemption is permitted in the sales tax.

18 MR. HUNT: At the moment you are getting all  
19 the European imports coming in without any protection to  
20 the Canadian producer.

21 THE CHAIRMAN: When I said that I was thinking  
22 of Canadian products.

23 MR. HUNT: The bonded warehouse system is  
24 certainly - the volume of merchandise which is merchan-  
25 dised is far greater through the bonded warehouse system  
26 than through the traditional retailer.

27 COMMISSIONER GRANT: We are concentrating our  
28 attention here on the sales tax, but the duty-free shop -  
29 the largest mark-up on the product would be on the custom  
30 duty.



MR. HUNT: Would you like some examples?

Here is a schedule. It is not yesterday's or anything like that. It is close enough to show. Swiss and German timepieces, 30% duty on declared value plus 10% excise, plus 11% sales tax; French perfumes, 25% duty, 10% excise and 11% sales tax; Belgian lace, 12½ to 25 percent duty - there are variations in an awful lot of these things - 11% sales tax. English and Irish linens, duty 20% and surcharge of 12 to 15 cents per pound, not the surcharge in the sense of the one that has just been discarded, but this is one that has continued through the years, and also 11% sales tax.

German cameras, 15 to 20 percent, plus 11% sales tax, no excise. Most Jewellery, 30% duty, 10% excise, 11% sales tax. You can see not only do they have a magnificent mark-up to play around with regardless if they cut 25% off their prices, off prices it would normally be sold for. Their mark-up would be considerably better than the traditional retailer. They have greater profits, greater mark-up and still pay very much less than the traditional retailers' price.



C/MR/dpw

THE CHAIRMAN: Just how many duty-free shops

2 are there in British Columbia?

3 MR. HUNT: There are three at the moment, sir.

4 THE CHAIRMAN: Have you any idea what their  
5 volume is? Would you try and guess at it?

6 MR. HUNT: No. I have been trying to get it.  
7 I have not been successful. It is certainly on the increase.

8 THE CHAIRMAN: Would it be a few million dollars?  
9 In that order, or would it be a few hundred thousand  
10 dollars?

11 MR. HUNT: I would say the overall duty-free  
12 operations in British Columbia now would approximate  
13 probably one million dollars. This is strictly a personal  
14 estimate.

15 THE CHAIRMAN: All right.

16 COMMISSIONER WALLS: If you feel it is as harmful  
17 as you say it is, and I don't question that, what steps  
18 have you taken with regard to representations to the  
19 municipalities<sup>es</sup> not to issue a licence to these type of  
20 stores in that they are bringing no income into the muni-  
21 cipality?

22 MR. HUNT: We did approach the municipalities,  
23 sir, and we didn't have any success. We also approached  
24 the Provincial Government and we had considerable co-opera-  
25 tion from the Provincial Government. As a matter of fact.  
26 Mr. Bennett came right out and stated he was opposed to  
27 them, but we feel that - well, if I might just read this  
28 letter, or part of it. This is to Mr. Bonner, the Attor-  
29 ney-General.

30 We understand it is quite within "...provincial



1 scope to deal with this situation, either through licen-  
2 sing channels or through the provincial right to regulate  
3 trade and commerce."

4 We were under a misunderstanding when I wrote  
5 this letter, which was approximately last year, and we  
6 have since found out that it can't be done. I mention  
7 here the Federal action would be considerably more involved.  
8 I understand that at the present time there are more than  
9 450 licences in effect to operate bonded warehouses.

10 "Federal legislation aimed at duty-free stores  
11 would inevitably implicate these normal and necessary  
12 operations." - of the bonded warehouses, and there is  
13 quite a bit of correspondence on the subject between myself  
14 and the Provincial Government. They are certainly sympa-  
15 thetic but they have come to the conclusion that this is  
16 basically a federal matter.

17 I will give you an example of the spread of  
18 prices. For instance, on liquor, if you are interested,  
19 I would certainly like to be able to buy a bottle of  
20 Canadian Club or Seagram's V.O. for \$2.75.

21 THE CHAIRMAN: We have no more questions. We  
22 understand your submission, I think. You have been very  
23 helpful to us. Is there anything you would like to say  
24 to us?

25 MR. HUNT: Just in conclusion, sir, I might say  
26 that although we have spent considerable time on duty-free  
27 stores and we would not want to detract in any way from  
28 the importance of the inequities in taxation, at the moment  
29 we are most concerned - we are vitally concerned - with  
30 this duty-free store effort. I realize that it is going



C3 1 to be some time before your recommendations will come  
2 forward, but we plan on continuing our representations in  
3 every area we can because we are so concerned.

4           The spread of these duty-free stores, in my  
5 opinion, no doubt will cause a considerable increase in  
6 the volume of business done and a considerable increase  
7 in the amount of funds which are taken away from the  
8 Federal Treasury as a result of the avoidance of duty,  
9 excise and sales taxes.

10           Although you said that you are concerned only  
11 with sales tax, in view of our huge federal deficit, in  
12 the past budget, three-quarters of a billion dollars, we  
13 should be vitally concerned with all areas which will have  
14 a tendency to reduce that deficit because deficit spending  
15 cannot go on and on indefinitely.

16           Have you anything to say, Mr. President?

17           MR. PHILLIPS: No, I don't think so. That is  
18 covered very well.

19           THE CHAIRMAN: I said taxes. We are concerned  
20 with taxes of all kinds.

21           MR. HUNT: I am sorry. I thought Mr. Grant ---

22           THE CHAIRMAN: For that matter we may have said  
23 sales tax.

24           COMMISSIONER GRANT: No, I only said we were  
25 emphasizing sales tax at that moment to the exclusion of  
26 other types of taxes.

27           MR. HUNT: I beg your pardon. I misunderstood  
28 you. Thank you very much, gentlemen. If we can be of any  
29 further assistance, I wish you would let us know.

30           THE CHAIRMAN: Mr. Secretary, we will proceed



C4 1 whenever you are ready.

2 THE SECRETARY: Mr. Chairman, the next submission  
3 is being presented by Mr. George J. Smith of West Vancouver.  
4 This is a personal submission by Mr. Smith, who is here to  
5 speak to his brief, which I now enter into the record as  
6 Exhibit No. 132.

7  
8 --- EXHIBIT NO. 132: Submission of Mr. George J. Smith.

9  
10 SUBMISSION OF MR. GEORGE J. SMITH

11 THE CHAIRMAN: Good morning, Mr. Smith. Before  
12 speaking to your submission, would you tell us a little  
13 bit about your interest in taxation? What is your profes-  
14 sion and what draws you to this particular subject? I  
15 think we are all drawn because we are taxpayers. Some  
16 are drawn more than others.

17 MR. SMITH: I am a surveyor. I am a partner in  
18 a fairly large surveying business in Vancouver. My interest  
19 in it is simply that of a Canadian. I have a little bit of  
20 hobby in economics and I can see - and I am very afraid  
21 that our taxation system is leading us into a very great  
22 deal of trouble. That has been my own personal experience  
23 in my own business.

24 There are many things that have come up that I  
25 think are very unfair, and not only very unfair, but  
26 discriminatory. I think a lot of things that are harmful  
27 to our economy. I think we have to take a very, very hard  
28 look at taxation with a view to cutting it down and also  
29 with a view to making sure that our tax plucks the fruits  
30 of our economy rather than bleeding it at the roots, which



05 1 is going on today in Canada and Canada has very grave  
2 economic problems ahead of us.

3 We have had a great many problems that are here now  
4 that I feel have been aggravated, probably brought about  
5 by improper application of taxation, so my brief is, more  
6 than anything else, to bring up some of the points that I  
7 have thought were wrong over the years, to try and analyze  
8 them to see what possibly could be done to make our taxation  
9 system more useful to our economy.

10 Now, I think that is about it. How do you want  
11 to carry on? Do you want to ask questions?

12 THE CHAIRMAN: That is our usual practice, Mr.  
13 Smith. You have made some pretty broad statements here.  
14 I think to fully understand them we have to direct a few  
15 questions to you.

16 I am not very clear in paragraph 2, second  
17 sentence, as to what you mean by the words "...generates  
18 a new cash return of 50% per year on the invested capital."  
19 The previous sentence is: "Money taken from Canadian  
20 business through taxation to pay the cost of government  
21 or to be invested in social capital is spent once and does  
22 not usually generate any cash return. The same money,  
23 however, retained in the business community and invested  
24 in new production, generates a new cash return of 50% per  
25 year on the invested capital." Would you expand on that?

26 MR. SMITH: Yes. To start with, a great deal of  
27 the money that is taken in taxation, particularly from  
28 business, is money that is actually part of the capital of  
29 that business. In other words, the business could use it  
30 to expand its own affairs to the betterment of the



C6 1 community as a whole.

2           That money is taken and spent on roads and other  
3 things. Some are vitally necessary; some are less neces-  
4 sary. Some of it is spent on frills, but once you  
5 construct a road, the money that is spent in the construc-  
6 tion of that road; say, for instance, \$1 million, that is  
7 \$1 million spent. From thereon in it costs you money each  
8 year to maintain it, and that money has to come from taxa-  
9 tion.

10           However, if that money had been left in businesses  
11 and you said to the man that had it, "You must" or "This  
12 money must be re-invested sensibly in the expansion of  
13 this business, or other businesses," then that \$1 million  
14 would be spent on the creation of a plant, and on the  
15 development of a business, but that plant would generate  
16 a return of approximately 50% a year on the invested  
17 capital.

18           When I say that, I don't mean profit. That is  
19 money going through. I have checked up with the Gordon  
20 Commission Report and as far as I can make out it was  
21 somewhat better than that. In other words, if you have  
22 a \$1 million plant, you can expect probably to get  
23 \$500,000 a year cash flow through that, which would be  
24 spent on wages. A very small proportion of it would be  
25 spent - or will come out as profit.

26           THE CHAIRMAN: I would expect it to be more than  
27 that. If one does \$1 million sales from that plant,  
28 which represents exactly what you spoke of, the amount of  
29 money coming in, which is generated through it, would, I  
30 would guess, be \$1 million or more.



C7 1 MR. SMITH: Okay.

2 THE CHAIRMAN: Is that good? Is that better than  
3 the road? You are saying it is.

4 MR. SMITH: Yes, because that is \$1 million;  
5 that is a return on your capital coming in every year to  
6 the community. That comes in every year. Two years you  
7 have doubled the money that has been spent on that plant.

8 THE CHAIRMAN: You haven't got a road to get at  
9 the plant.

10 MR. SMITH: I am not saying that you shouldn't  
11 build roads. I am just saying that that money - I had  
12 heard in Canada for a long time that the way to prime  
13 the pump is to get the Government to spend money. That  
14 is the wrong thing to do altogether. Once they spend  
15 money, it is down the drain.

16 THE CHAIRMAN: I understand the point that you  
17 make.

18 MR. SMITH: I only wished to be conservative on  
19 that 50% estimate. I didn't want anybody to say I was  
20 too high.

21 COMMISSIONER PERRY: You seem to imply, though,  
22 this is a reason for reducing social capital expenditure,  
23 whereas you think that the road is necessary. What if  
24 roads go on being necessary, as they are obviously going  
25 to be? Then do we stop building roads? People would like  
26 to build factories instead.

27 MR. SMITH: I think we have to be discriminatory,  
28 to realize that there is no great virtue in expanding  
29 development of some parts of the country to make sure that  
30 every farmer has a paved road to the detriment of our



08 1 economy as a whole, where today, to go further on this,  
2 we have approximately 300,000 unemployed in Canada, some-  
3 what more than that, but say 300,000 employable people.

4 We have to give those people work. Not only  
5 that, there are 130,000 a year new jobs that we have to  
6 create. That takes a great deal of money.

7 Again, from the Gordon Report it seems that that  
8 amount of money amounts to approximately \$10,000 per job.  
9 If I have ten employees, I have \$100,000 invested, on the  
10 average, across Canada. Now, if we have 300,000 people  
11 that are unemployed, we multiply that by 10,000 apiece,  
12 we end up with something like three billion dollars that  
13 we have to find to give the unemployed a permanent job.

14 Now, that can only be found by the investment,  
15 the proper investment of capital in business. It cannot  
16 be found by the Government running all over the place  
17 trying to do something to make work. It cannot be found  
18 by building projects which might be years ahead of their  
19 time. This money would do far more good if left in the  
20 hands of the business community and guided into proper  
21 investment.

22 THE CHAIRMAN: You represent a school of thought  
23 all right, but the one opposed to you says that there is  
24 not much good building plants unless people will buy the  
25 goods that come out of the plants. They can't buy the  
26 goods unless they have money.

27 The U.S. program for tax reduction endeavours  
28 to be balanced between the reduction in tax to encourage  
29 production, and reduction in tax to encourage consumer  
30 spending. What do you have to say to the people who would



C9 1 reply to you that it is much better to encourage consumer  
2 spending than it is to build plants?

3 MR. SMITH: Well, those people are thinking in  
4 terms of this country as it was 50 years ago in this  
5 respect: that our money - we can take in our own washing  
6 all the way around and write cheques to each other, and  
7 all that will only go so far, but we have to - a lot of  
8 the things we buy today come from other countries. I  
9 will go down the street and very often see European cars,  
10 American cars. In other words, world trade is expanding.

11 Now, for our own domestic production that we  
12 use back and forth across the street, and around this  
13 city, what you say will apply to some extent, but we today  
14 are dealing in world markets. One thing that is very  
15 important is that a lot of people do not relate that here  
16 in Canada. We are surrounded - we have a small, relatively  
17 small community, as far as the world is concerned, with  
18 a high standard of living. We are surrounded by great  
19 masses of people that are just as intelligent as we are  
20 and able to work as we are, probably more so, and in many  
21 cases with a lower standard of living; able to take a lower  
22 wage, and willing to get by on less. The only way we can  
23 keep ahead of those people is to have the tools and the  
24 equipment to do the job and if we are going to buy outside  
25 goods, we have to deal on foreign markets in competition  
26 with these people, so we have to have the best equipment  
27 available because if that guy is going to work for \$2 a  
28 day, our man is going to work for \$18 a day, we have to  
29 have something to make up the difference if we are going  
30 to sell the same product to Britain or some other places.



1 For instance, Russia, on lumber, we don't know  
2 what it costs Russia to make the lumber. It is probably  
3 less than us. We are dealing not with our own community;  
4 we are dealing in a world community. These answers that  
5 people bring up,--I feel do not apply.

6 COMMISSIONER WALLS: I have a question, in regard  
7 to your recommendation that the Government should loan the  
8 tax money it collects back to industry. Do you not think  
9 that is going to be self-defeating, Mr. Smith, because, first  
10 of all, the money withdrawn for taxes is required for the  
11 operation of the Government. If, then, the Government is  
12 obligated to loan it back, where do you see the Government  
13 getting the operating revenue?

14 I notice you suggest that they should borrow it  
15 on the open market, but would this not result in the  
16 Government requiring a larger share of the cash market  
17 and thus driving up interest rates to the disadvantage of  
18 business in general?

19 MR. SMITH: That is something that I am afraid  
20 I cannot answer, but I would like to bring up the point  
21 this is really an exceptional case, rather than a general  
22 case. For instance, this is really for the business that  
23 is expanding.

24 If you get a business that is prosperous and  
25 expanding, and has a good market to expand into, either  
26 foreign or domestic, then it demands a lot of capital and  
27 also you can have the same thing with another business in  
28 which equipment - say, old equipment - is becoming obsolete  
29 and new equipment was required. In those cases, the  
30 amount of profit apparently shows up in that business



D/PB/dpw 1 Depreciation cannot be taken out of it.  
2 Depreciation is not realistic when you have to replace  
3 the \$10,000 machine with a \$20,000 machine and you find  
4 through the general development of business that your  
5 operation at one time was an economical unit but now to  
6 become an economical unit in the present day it has to  
7 be doubled in size otherwise you wouldn't survive. You  
8 have to have money and that money generated in your own  
9 business in terms of cash. You might want to retain  
10 that and you should be able to make some deal with the  
11 Government to retain for a limited period. I say a  
12 limited period - I mean a number of years.

13 It should be set up so that the interest rate  
14 increased to the point where you want to place it with  
15 private capital. I think that those cases where that  
16 would happen are maybe one in 20, one in 50, something  
17 like that.

18 THE CHAIRMAN: Mr. Smith, on the top of page  
19 3:

20 "The writer also believes that if our  
21 present serious situation has been  
22 brought about by improper taxation it  
23 can, in turn, be corrected by taxation  
24 designated to produce the desired result."

25 Now, I have been looking for a plan of taxation  
26 which could produce the desired result. You point out  
27 many things wrong with the present system, such as  
28 means of determining depreciation and means of measuring  
29 profits. I don't see very much directed at rearrangement  
30 of our tax system which would have an economic impact  
31 which would correct the present serious situation.



1 Just recap, if you will, sir, those changes  
2 which you believe would correct the present serious  
3 situation.

4 MR. SMITH: Well, there are other questions,  
5 I suppose, on the brief further on?

6 THE CHAIRMAN: Yes, I think so, of a more  
7 technical nature. I am trying to deal with the broad  
8 aspects.

9 MR. SMITH: Some of the things I bring up  
10 might answer some of the things later on. To start with  
11 I feel that the depreciation system should give more  
12 allowance for the obsolescence of equipment, for the  
13 fact you have inflation. I buy a machine today and 25  
14 years ago that machine would have been worth \$3,000.  
15 Today an equivalent machine is worth \$15,000 or \$20,000.  
16 I just have to either take that extra cash out of tax-paid  
17 profits, so-called profits, or go and borrow it. That  
18 is one thing I think should be changed. Either the  
19 depreciation system should be changed to take this into  
20 account or maybe it should be speeded up so you can  
21 write that off in one year. Something should happen  
22 along that line.

23 Another thing that I think should be changed  
24 would be the idea of profits. For instance, if I can't  
25 take money out of my business it is not a profit. You  
26 might say, "Well, it goes to that business." A business  
27 worth \$20,000 15 years ago is worth \$100,000 today. You  
28 get to a point that many, many people get all their cash,  
29 any extra money that they might have made out of the  
30 business is completely locked up in its expansion and



D3 1 those people are quite often forced to sell. They have  
2 very little margin outside of what they have in equipment  
3 and in business.

4 Quite often, through death and other things,  
5 they are forced to sell. I think that is a bad situation.  
6 I think it could be alleviated by taking a little  
7 different idea of the profits. I mean profits should  
8 be dividends or money taken out of the business rather  
9 than what the normal accounting term is. If you can't  
10 take it it isn't profit.

11 THE CHAIRMAN: I hate to violently disagree  
12 with anybody before this hearing but on this score I  
13 am afraid I must. That kind of distinction would discri-  
14 minate very greatly between those people who start their  
15 business with adequate capital to pay dividends at the  
16 beginning, and those people who borrowed all the money  
17 to start the business and had nothing but debts that  
18 they had commitments to pay.

19 In the latter case, under your definition of  
20 profit, they would have no profit and they would pay no  
21 taxes. I see no reason why a fellow who starts with  
22 sufficient capital should pay taxes and the man who  
23 starts with insufficient capital should not. That is  
24 not, to my way of thinking, a good basis for taxation.

25 MR. SMITH: I think the problem comes that  
26 most businesses grow like Topsy. There are a great many  
27 businesses, even the large ones today, that when they  
28 started planned to arrive at what they did.  
29 The one that people said, This is going to be a dandy,"  
30 turns out to be a dud, and the one that they said, "He



04 1 is crazy to put his money into it," turns out to be wonder-  
2 ful. Somewhere along the line the fellow who gets the  
3 winner has to raise money to keep that thing in control  
4 and to build a business. Maybe he goes along for years  
5 and never takes a nickel out personally outside of what  
6 he can barely get by with. He builds up his staff and  
7 gives us a stable business in our community. During  
8 that time if he has had to carry on his expansion out of  
9 tax-paid money - that is what concerns me. I know what  
10 it is like. This is what I was thinking of, of profits

11 The other thing is that I think these taxes,  
12 for instance, like these - I feel there should be no  
13 taxes that would raise the cost of capital goods. For  
14 instance, say we figure \$10,000 on capital to employ  
15 anybody and if we put 10% taxation on building materials  
16 and on equipment that means it would cost \$11,000 to  
17 employ him today. It also means we have to get a higher  
18 price for our products in the world market.

19 Now, I feel that there should be no tax that  
20 would raise the cost of capital goods putting in a plant  
21 to employ people. That is a tax against the very life-  
22 blood of industry. This is a confiscation of capital  
23 or tax on capital rather than anything else. It can't  
24 be anything else.

25 THE CHAIRMAN: You would maintain exemptions  
26 in respect to machinery and equipment and buildings, I  
27 take it - I mean sales tax.

28 MR. SMITH: I think it is a little different  
29 as far as buildings are concerned. It depends on what  
30 the buildings are used for. I am thinking more of plants



D5 1 and equipment that are going to employ people. I am not  
2 thinking of other things as much. That is strictly  
3 employment. Also, to go further along the line, I  
4 think the death duties have had a lot to do with people  
5 selling out Canadian business to other foreign concerns  
6 and it has got a lot to do, maybe, with - it may do a  
7 lot of harm. I feel there should be some concession to  
8 be able to allow a person or, say, a family business to  
9 overcome that very drastic death duty that has to be paid.

10 COMMISSIONER WALLS: I see you suggest govern-  
11 ment loan back death duties 100%. We have had representa-  
12 tions that instead of that a five-year period be granted.

13 MR. SMITH: Anything is better than nothing.

14 COMMISSIONER WALLS: You would favour a loan  
15 as against the five-year payment?

16 MR. SMITH: I think the five-year period is  
17 quite sensible. It is a sensible term if the business  
18 can handle it. I think it depends on the business itself.

19 COMMISSIONER GRANT: Your argument, Mr. Smith,  
20 would seem to come to the conclusion that the present  
21 revenues which governments are receiving should be  
22 reduced. Would you say that that was so?

23 MR. SMITH: I would say it is absolutely so,  
24 simply for the reason that apparently, as far as I can  
25 see, probably somewhere around 30% of our gross national  
26 product goes to taxes. If this country is to expand,  
27 and again we come back to the fact that we must expand,  
28 we have \$3 million to find for unemployed today, already  
29 unemployed, and we have \$1,300,000 to find for the new  
30 people coming up out of schools plus capital which has



D6 1 to be put in to offset the effects of automation; in  
2 other words, to find a new job for people automated  
3 out of business. Therefore, we have a very big problem  
4 ahead of us. There is only one place that money can  
5 come from; that is from our product. If the taxes are  
6 so high that they are leaving a small proportion of that  
7 product in the hands of the people that understand the  
8 use of capital - even personal savings go into the bank  
9 and the bank uses that capital. No matter where you go  
10 any money that is saved and goes into any kind of insti-  
11 tution helps our problem. Therefore, the only way that  
12 we can raise that money is to not take it away.

13 The Government is in exactly the same position  
14 relative to our Canadian business community as the over-  
15 head department takes for a business. We know overhead  
16 is the enemy of business; beyond a certain point it is  
2 17 the enemy of business.

18 Today the Government has reached the point  
19 where it requires so much money I feel it is a very  
20 great drain on the whole Canadian economy. Something  
21 has to be done about it and also the drain has to be  
22 channelled into places where it is not going to harm.  
23 It has to be handled in a way to help growth. I know  
24 you have to have money, but I don't believe you have to  
25 reach a point of where every time you need money you  
26 don't think of cutting business like business has to do;  
27 you say you have to raise taxes and they don't care  
28 where the tax is raised.

29 COMMISSIONER GRANT: If there is going to be  
30 less revenue going into the Government Treasury then



D7 1 there is going to be a curtailment in expenditures, a  
2 corresponding curtailment. Have you given any thought  
3 to where that curtailment would come from?

4 MR. SMITH: I am afraid I didn't go into that.  
5 The Government expenses are many, many times what they  
6 were 30 years ago with about double the population. I  
7 know you can work it out. I don't see any reason why we  
8 need the vast expenditures we have. We just can't stand  
9 it. If anyone of us in our family life is spending more  
10 than we can afford to spend we would be in trouble, the  
11 same with business, the same with government. We have  
12 to retain money in our business community to be used in  
13 capital.

14 COMMISSIONER MILNE: Simply following that  
15 particular line of thought of retaining this money in  
16 the business community, and I don't know whether or not  
17 you heard the participant just before you, but I made a  
18 note and it seems to apply right now because it has  
19 been the experience in the business community that  
20 approximately 30% of new businesses, only 30%, can survive  
21 the first five years. If this has been the experience  
22 in the business community and you suggest that govern-  
23 ment plan of expenditure is not the best - how is the  
24 experience to improve?

25 MR. SMITH: I think you will find most of  
26 those businesses were - they might have been broke by  
27 taxes. Taxation might have broken them. I have seen a  
28 lot of my friends, small loggers and people like that,  
29 they have had to - I don't know, I think some of those  
30 are caused by taxation; some through bad management.



D8 1 Let us look at another point: that 30% that  
2 didn't survive the first five years, in general their  
3 volume isn't more than to the stage where they amount  
4 to much. They are not large businesses. They are  
5 generally quite small. They are in the period where  
6 they are either going to make it or not. I think what  
7 we have to do is make sure that growing business has  
8 money; it needs to go out into the foreign markets,  
9 which we have to do. Put in the equipment we need, do  
10 the research that we need to do to sell our product.

11 Small companies that don't survive - I think  
12 most are small. It is perfectly true; if you put  
13 dollars on it you would find it didn't amount to very  
14 much.

15 Another point I would like to bring up here,  
16 there is a lot of money in this community, money that  
17 runs around 10 to 20 percent today, money you have to go  
18 out and get. There is an awful lot of that money being  
19 used today. There has been in the past. Of course,  
20 this is right now. People are making a real killing  
21 out of the high interest loans. They are making those  
22 loans only to businesses that are good and sound. Those  
23 businesses need cash. They are going out and paying a  
24 lot of money for them.

25 COMMISSIONER GRANT: They shouldn't have to  
26 pay exorbitant rates of interest if the business is a  
27 sound business.

28 MR. SMITH: It all depends. There is a lot of  
29 that type of money around. I feel there is an increase  
30 in the good, sound businesses short of money that have



D9

1 to pay high prices for it. You get these tight money  
2 situations in the bank. They have been up and down like  
3 a yo-yo over the past few years. One time they have  
4 lots of money and the next time they are calling their  
5 loans, People have to go out and borrow high price  
6 money when that money should have been their own money  
7 which has been retained in the business instead of being  
8 paid out in taxes.

9 COMMISSIONER PERRY: There is one fact that  
10 disturbs all economists at the present time. I think  
11 it is conceded that ultimately there has to be industrial  
12 expansion, but the difficulty is that so many industries  
13 have over-capacity, and the people in these industries  
14 themselves can see no need for further capital expendi-  
15 tures. In a good many cases they have quite adequate  
16 funds for such expenditures but simply don't see the  
17 necessity for making them. This is just a footnote to  
18 quite a few things you have been saying, of course.

19 MR. SMITH: I am not saying you should apply  
20 these ideas right across the whole board. The only  
21 thing that is going to expand our industry is work and  
22 money. Much of it is going to come from foreign markets  
23 and that costs a lot of money, to send around the world  
24 looking for business.

25 THE CHAIRMAN: Thank you, Mr. Smith. Really,  
26 in asking you to reply as to those courses that you  
27 think most desirable to our tax system you gave several,  
28 different methods of depreciation, different determina-  
29 tion of profits and recommended

30



/dpw 1 no taxes, which would increase the cost of  
2 capital goods which are used for further employment and  
3 some relief by deferment of the payment of death duties,  
4 and there are others shown in here. That, I take it, is,  
5 in a broad way, your prescription as a cure of our tax  
6 laws and I thank you very much indeed for coming before  
7 us today. It is extremely helpful to have people like  
8 yourself do this. This is the job of, I think, all citi-  
9 zens and some feel much more strongly about it than others.  
10 I very much appreciate your helping today. Thank you very  
11 much.

12 MR. SMITH: Thank you very much, sir.  
13

14 --- Short Recess  
15

16 THE CHAIRMAN: Mr. Secretary, we are ready at  
17 this end.

18 THE SECRETARY: Mr. Chairman, the next brief is  
19 being presented this morning by Mr. J.A. Lindsay of the  
20 Lindsay Models and Metalcrafts Limited. Mr. Lindsay is  
21 here to speak to his brief which I now enter into the  
22 record as Exhibit No. 133.  
23

24 --- EXHIBIT NO. 133: Submission of Lindsay Models and  
25 Metalcrafts Limited.  
26

27 SUBMISSION OF LINDSAY MODELS AND

28 METALCRAFTS LIMITED.

29 Appearance: Mr. J.A. Lindsay

30 THE CHAIRMAN: Thank you, Mr. Secretar



E2 1 morning, Mr. Lindsay.

2 MR. LINDSAY: Good morning, Mr. Carter.

3 THE CHAIRMAN: You are here representing your  
4 own company, I think?

5 MR. LINDSAY: Yes.

6 THE CHAIRMAN: With a device which you are going  
7 to tell us about?

8 MR. LINDSAY: Right.

9 THE CHAIRMAN: You are speaking to a very  
10 interesting area. This is the area that is borderline  
11 between service and goods, I believe?

12 MR. LINDSAY: I would think so.

13 THE CHAIRMAN: In the application of sales tax  
14 to that. I think it is a troublesome area, from an asses-  
15 sing point of view. We would be very interested to hear  
16 what your product is and something more about your diffi-  
17 culties.

18 MR. LINDSAY: Thank you very much. A number of  
19 people have difficulty in understanding our business. I  
20 would state I have a model business and they would say,  
21 "How many girls do you have?" My wife has been somewhat  
22 embarrassed on the telephone by people wanting to know how  
23 many nude women we have.

24 I am afraid it is not that kind of a business.  
25 We are working primarily with consulting engineers and  
26 architects to help them design buildings, pulp and paper  
27 plants, anything in three dimensions.

28 Drawings, conventional drawings, as prepared by  
29 consulting engineers, are very, very elaborate. They get  
30 so confused that even they get a bit lost. I brought



E3 1 drawings here -- anybody can look at them -- and to overcome  
2 this problem we have developed a system of assembling  
3 anything: piping, for instance. That is a small section  
4 of a piping layout (indicating drawing) for a mill, and  
5 this drawing has to be read in conjunction with section  
6 drawings of structures and equipment, which are not  
7 shown here, and they have to be related, so we use  
8 material like this (indicating).

9 It is developed specially for the piping in the  
10 States. It comes in kit form. All the big consulting  
11 engineering concerns in the States and in Canada have  
12 these. Generally speaking, the engineers and draughtsmen  
13 themselves are doing this work and so they have piping of  
14 various sizes and colours.

15 THE CHAIRMAN: You buy this just like a Meccano  
16 set, do you?

17 MR. LINDSAY: Yes. You can put a piping system  
18 together very quickly by using this kind of thing. I  
19 thought a little colour would help the Commission. Very  
20 quickly, you can put up a piping system all over the place  
21 and you just have to see one of these big layouts (indi-  
22 cating) to appreciate the complexity.

23 Similarly, with structure. These are extruded  
24 sections put out by specialist companies in the States,  
25 again, and used by draughtsmen themselves and they can  
26 put up columns, cross-beams (indicating) and a core of  
27 the building. Once they have this on the table, then  
28 decisions can be made. The chief engineer, owner, every-  
29 body involved, can criticize this because it is there.

30 This kind of thing is - it's all right for a



E4 1 small job (indicating). It is being used more and more.  
2 We are working now with the Peace River people here, the  
3 Engineering Department; the B.C. Hydro engaged three  
4 international experts on dam construction. One from  
5 England, one from Sweden, and one from the States, to  
6 assist in the design of this earth dam. It's a very big  
7 job and these three fellows were engaged as experts.  
8 Right away they said they would like to see a model of  
9 part of the rock formation on the canyon wall of the  
10 Peace River, so this is what we did (indicating). This is  
11 part of the canyon wall they wanted to excavate; part of  
12 the top topography to allow a resting place for the earth  
13 to sit in, so the pressure of the water will not disturb  
14 the dam. This is done to engineers' instructions.

15 THE CHAIRMAN: What form did the engineers'  
16 instructions take?

17 MR. LINDSAY: This sketch (indicating).

18 THE CHAIRMAN: That is all?

19 MR. LINDSAY: Yes. They say, "We don't know  
20 what we want yet. We will have to see it in three dimen-  
21 sion," so this was done, and this has been - I forget  
22 how many different models we have made; changed this  
23 about six times, and there is still a possibility it will  
24 be changed.

25 Now, this is the nature of our business. All  
26 this piping may be changed. Instructions don't always  
27 come to us with a drawing like this. They may come to  
28 us with just a slip of paper, even verbal instructions.  
29 There is an instruction (indicating), just a few hasty  
30 lines and I, being an engineer, can understand what they



E5 1 are getting at. We can design it for them. This is the  
2 beginning, the basis, you see. My point is this is being  
3 done all over the country by individuals in design offices.  
4 We have a good many individual pieces like this and they  
5 are working away with them. I am afraid Mr. Simms has  
6 insisted that our work is taxable and, well, frankly, I  
7 cannot see it, Mr. Carter.

8 THE CHAIRMAN: How many companies are there  
9 like yourself? Are there a lot?

10 MR. LINDSAY: In Vancouver?

11 THE CHAIRMAN: No, throughout the nation. Are  
12 there lots of people in this kind of business?

13 MR. LINDSAY: As far as I know, none.

14 THE CHAIRMAN: So that when you say "other  
15 people are doing it," it is people employed by contractors  
16 or architects?

17 MR. LINDSAY: Yes, exactly.

18 THE CHAIRMAN: You are the only entrepreneur in  
19 this business that you are in, though?

20 MR. LINDSAY: As far as I know there are some  
21 in the States.

22 THE CHAIRMAN: Are you doing this for most  
23 large buildings, or is somebody doing this for most large  
24 buildings?

25 MR. LINDSAY: I would say that most of the large  
26 architects are doing studies in three dimension in their  
27 own offices. Some architects have come to me and said,  
28 "You fellows are doing it much more effectively and  
29 quickly. We can spend our time more profitably conceiving  
30 the design."



JOHN CHAPMAN  
SPECIAL EXAMINER  
TORONTO, ONT.

2414

E6 1 THE CHAIRMAN: Are you an architect yourself?  
2 MR. LINDSAY: No, not an architect.  
3 THE CHAIRMAN: An engineer?  
4 MR. LINDSAY: An engineer. I am an engineer  
5 with an artistic ability.  
6 THE CHAIRMAN: Because I would not be able to  
7 read the plans. You learned to read the plans. You are  
8 an engineer.  
9 MR. LINDSAY: Yes. I worked for the Rolls  
10 Royce Company in Britain.  
11 THE CHAIRMAN: Now, how do you get paid for  
12 this work?  
13 MR. LINDSAY: Most of it is on a cost-plus basis.  
14 THE CHAIRMAN: That thing beside you there,  
15 how would you determine the cost of it?  
16 MR. LINDSAY: We go on an hourly basis because  
17 nobody knows how long we are going to be on it.  
18 THE CHAIRMAN: Material in there would be very  
19 little?  
20 MR. LINDSAY: Nothing at all.  
21 THE CHAIRMAN: What would be the material cost in  
22 that thing?  
23 MR. LINDSAY: Ten cents.  
24 THE CHAIRMAN: And the pipes in front of you?  
25 MR. LINDSAY: What you see here, 75 cents,  
26 maybe.  
27 THE CHAIRMAN: So when you make out a bill,  
28 it is 95% time, 98% time?  
29 MR. LINDSAY: Generally speaking. There are  
30



E7 1 exceptions, but generally speaking.

2 THE CHAIRMAN: As to the description, are there  
3 any questions of this type, rather than the tax implica-  
4 tions?

5 COMMISSIONER WALLS: The only thing I would  
6 like to get clarified is, that Mr. Lindsay has shown us  
7 what he is doing in the three dimensional work, which  
8 is work similar to architectural work in two dimensions,  
9 but I notice on the objectives of your company you say  
10 that you also make scale models for sales promotion?

11 MR. LINDSAY: That is right.

12 COMMISSIONER WALLS: And that, of course, when  
13 we later deal with the taxation may have some implications.  
14 What sort of models do you make for sales promotion?

15 MR. LINDSAY: I will give you one example. We  
16 have made buildings for MacMillan Bloedel, wooden build-  
17 ings. These have been designed so that the farming  
18 community can understand the application of plywood and  
19 plywood construction. A farmer can't understand this  
20 type of thing, but he can see what he is going to have  
21 when he has a scale model there, particularly when this  
22 is cut away in sections so all the different elements  
23 within this building are shown. We have done this, and  
24 we have never disputed that this type of work is not  
25 taxable. We have charged taxes. There we charge a  
26 fixed price and this is negotiated with the customer.

27 COMMISSIONER WALLS: So in reality your sales  
28 promotion is very close to your other type of work, then?  
29 This is mostly dealing with sections of buildings?

30 MR. LINDSAY: No, I don't see that, Mr. Walls.



E8 1 On what basis do you see that?

2 COMMISSIONER WALLS: I mean you are carrying out  
3 three dimensional work in the building of buildings and dams  
4 under your models, then, and I am saying this for your  
5 own advantage, the models you are using for sales pur-  
6 poses are in much the same category.

7 MR. LINDSAY: In the respect that they are  
8 allowing people to understand what they are getting, yes.

9 COMMISSIONER WALLS: That is, of course, what  
10 the engineers wanted these models for, too.

11 MR. LINDSAY: If the Government wants to elimi-  
12 nate the 11% from our other work, I don't know; I think  
13 the country has to get some money from taxes all right.  
14 I don't dispute any of that. It's just this inherent  
15 inequality that I am fighting.

16 THE CHAIRMAN: Yes. I think what Mr. Walls  
17 is trying to do for you is to suggest that you are  
18 probably in pretty much the same position as any other  
19 professional firm. This architect who draws the plans,  
20 the architect pays taxes on the purchase of the paper  
21 on which he draws the plans. The tax is not charged  
22 for his own services.

23 MR. LINDSAY: No.

24 THE CHAIRMAN: Likewise you are analogous to  
25 an architect - you paying the taxes on the plaster and  
26 piping, and this sort of thing rather than charging the  
27 taxes.

28 MR. LINDSAY: This is what we have been doing.  
29 We have been charging our customers taxes on the materials  
30 but our time, being on a cost-plus, no. Now, we find that



E9 1 we are mixing in, as you would see from our brief, with  
2 the plant's own staff. They will be working beside us;  
3 in some cases doing the bulk of the work. They would  
4 say, "We are a little behind, would you come and help  
5 us please?" I just can't see why I myself or my staff  
6 are paying taxes when we are doing this design work.

7 COMMISSIONER PERRY: Just one further point:  
8 your contract with your customers is to provide a scale  
9 model, title to which becomes the customer's?

10 MR. LINDSAY: Yes, the customer's property

11 COMMISSIONER PERRY: It is not to provide  
12 consultation services or advice. It's in terms of provi-  
13 ding a scale model.

14 MR. LINDSAY: There is an element of consulta-  
15 tion here, Mr. Perry. We are left partly to our own  
16 devices, at times, with our engineering background, and  
17 we will say, "Well, we will put that in. We think it  
18 should be," you see.

19 COMMISSIONER PERRY: I am just trying to  
20 establish the point whether the ultimate operation here is  
21 the delivery of a physical thing. It is the delivery of  
22 the scale model to your customer?

23 MR. LINDSAY: Well, there is the delivery of  
24 a service - I am searching for another word, but I think  
25 service is the word; professional service.

26 THE CHAIRMAN: What does your invoice read  
27 like? Have you got one there?

28 MR. LINDSAY: No. It will read: "To so many  
29 hours assisting you on so-and-so," you see.

30 THE CHAIRMAN: It will not say: "One scale



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2418

E10 1 model for dam, so much money"?

2 MR. LINDSAY: No.

3 THE CHAIRMAN: It will say: "So many hours'  
4 service"?

5 MR. LINDSAY: Yes.

6 COMMISSIONER WALLS: I think - and I am sure  
7 that you agree from what you have said - that the con-  
8 flict lies, in the objective of your company; to assist  
9 consulting engineers is in the same category as an  
10 architect, and, therefore, not subject to tax. It is  
11 the making of the scale models for sales promotion,  
12 display, and so on, that brings you under the manufacturing  
13 classification.

14 Now, in case that that cannot be changed, have  
15 you given any consideration under Section 34(2) of the  
16 Excise Tax Act to make application to the Minister of  
17 National Revenue to be considered as a 'small manufacturer'  
18 in the same classification as dental mechanics and not  
19 be be subject to sales tax?

20 MR. LINDSAY: I was not aware of this, Mr.  
21 Walls.

22 COMMISSIONER WALLS: Except for the materials  
23 that are used.

24 MR. LINDSAY: I was not aware of this. I have  
25 been discussing this problem with Ladner Downes, who are,  
26 I believe, very good, very knowledgeable, in this field.

27 COMMISSIONER WALLS: May be that is something  
28 that you might explore and make application to the Minister  
29 of National Revenue to be classified or declared a small  
30 manufacturer.



E111 THE CHAIRMAN: As you are probably aware, we  
2 have had representations - or at least the suggestion  
3 put forward - that services should be taxed as well as  
4 goods. They are in some other countries; not all. You  
5 are, as I said at the beginning, right at the borderline  
6 between the two and I suppose one solution to your situa-  
7 tion would be the taxation of all services so you would  
8 be in the same position as everybody else.

9 The other solution, of course, is to treat you  
10 as an architect and, therefore, you are a consumer rather  
11 than a producer of goods.

12 MR. LINDSAY: One thing I haven't said yet is  
13 why-- when the job of this nature has been done - engineers  
14 can do it themselves and have no problem with the tax  
15 people and yet they bring me in as an expert to do it  
16 quickly for them and I have to pay taxes?

17 THE CHAIRMAN: Your point has some validity.  
18 The Tax Department tries to seek equity on goods which  
19 are made by the taxpayer himself and possibly it doesn't  
20 always succeed, but as you probably know, in printing  
21 it levies a tax on printing made by the company for its  
22 own use, so as to put that into a position of equity  
23 with that it buys, but I don't think it succeeds totally  
24 in doing that. I think very often, when goods are made  
25 by the user, that they are not subject to the same taxes  
26 as those purchased which I suppose must be true of the  
27 sales tax system. We can't achieve equity completely.

28 MR. LINDSAY: I wouldn't expect it, no. You  
29 see, the same technique is used in office layout. Now,  
30 an office manager can buy this type of thing for furniture.



E12 1 and working from flow sheets can design a layout. This is  
2 a model the same as we are doing and I believe even  
3 chartered accountants set up model companies to evaluate  
4 taxes, and so on. Have you sent in your 11% today?

5 THE CHAIRMAN: Of what?

6 MR. LINDSAY: Chartered accountants set up  
7 model companies to evaluate taxes.

8 THE CHAIRMAN: I see. I haven't run into that  
9 yet. Well, I am not here to be told that I owe taxes.  
10 Have you anything further you would like to say to us?  
11 I don't think we have any more questions to put to you.

12 I think we understand your plight, if it is  
13 plight.

14 MR. LINDSAY: I have just one more point. I  
15 feel that the Department's attitude in my particular case  
16 has been caused by a local auditor going direct to my  
17 customer and asking if they will pay the tax on a parti-  
18 cular job, and this was done without my knowledge and I  
19 feel that this has prejudiced the whole issue. I feel  
20 it is unethical and unbusinesslike and has been done  
21 perhaps to help me but I think the auditor took a very  
22 narrow attitude.

23

24

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29

30



/PB/dpw 1 As a result of this my business has been very  
2 much influenced and all he could say was a tax on a  
3 particular job. It goes beyond that. Finally I do  
4 feel our machinery is somewhat an anachronism. We  
5 need machinery that reduces expense and time; as a matter  
6 of fact it has been going on for two years as it is.  
7 I think there should be some regularly available  
8 machinery for small people to argue. We have a very  
9 good example recently, the application of 11% tax on  
10 building materials. There were powerful vested interests  
11 and it is modified but a small seller like myself  
12 should have access to somebody like the Swedish Ombudsman.

13 THE CHAIRMAN: We might have quite a few of  
14 those fellows running around.

15 MR. LINDSAY: Well, I have read about their  
16 operation extensively and applications are screened,  
17 all applications have to be valid.

18 THE CHAIRMAN: Thank you very much, indeed.  
19 You demonstrated a particularly tough situation, I think.  
20 I think there are other people like yourself doing the  
21 same kind of job under the same difficulties.  
22 I have seen it myself in another product. It is good  
23 to have this demonstrated to us.

24 MR. LINDSAY: I am very pleased to have the  
25 opportunity of having come before you. I must say it  
26 is very nice to see the stern male countenance alleviated  
27 by the presence of a lady.

28 THE CHAIRMAN: You are ending up more char-  
29 mingly than you started. We are glad to see you today.  
30 Thank you very much. Mr. Secretary, we are ready for the



F2

1 next submission.

2 THE SECRETARY: Mr. Chairman and Commissioners,  
3 the next brief is from the British Columbia Hotel Associa-  
4 tion. We have present this morning speaking to the brief  
5 Mr. J.R. Corbett, Manager-Director of the Association;  
6 on the left, Mr. J.W. Naylor, Director of the Association  
7 and on the right, Mr. Wainwright. I would like to enter  
8 the brief into the record as Exhibit 134.

9  
10 --- EXHIBIT NO. 134: Submission of the B.C. Hotels  
11 Owners' Association.

12 SUBMISSION OF THE B.C. HOTELS OWNERS'

13 ASSOCIATION

14 Appearances: Mr. J.R. Corbett  
15 Mr. J.W. Naylor  
16 Mr. Wainwright

17 THE CHAIRMAN: Good morning, Mr. Wainwright,  
18 Mr. Corbett, Mr. Naylor. Mr. Corbett, you are speaking  
19 for your group, I take it? We have read what you have  
20 sent to us, your submission, and we will have a few ques-  
21 tions. Before we get to that I would appreciate your  
22 telling us a little more about your Association and  
23 speaking to your submission in any way you would like.  
24 There is no need to read it. We have read it. Any  
25 introductory remarks, anything that you would like to  
26 say, you can do it now. Don't stand unless you wish to  
27 do so.

28 MR. CORBETT: Mr. Chairman, ladies and gentle-  
29 men, like most other industries, the hotel industry in  
30 this province is suffering from growing pains. We find



F3 1 with the rapidly changing times in travel that people  
2 are demanding better facilities, better standards of  
3 service. This, of course, means additional financial  
4 responsibilities which account for some of the changes  
5 which we have included in our brief.

6 We find that because of the new methods of  
7 transportation a little hotel in a small centre is now  
8 experiencing considerable difficulty where people  
9 previously used to travel 150 to 200 miles and stay  
10 overnight they now travel four or five hundred miles  
11 and the little hotel in between is minus this flow of  
12 business.

13 We also find that guests expect more. What  
14 was good enough this year will not, perhaps, be good  
15 enough next year. We are in competition with hotels in  
16 Texas, Montreal, London, England, and so on. Previously  
17 we weren't exposed to so much of this competition. The  
18 cost of construction has increased. I think it is fair  
19 to say that the minimum cost per unit now is perhaps  
20 \$10,000 and up, and previously it was considerably less.

21 We have set a restriction in this province  
22 where new hotels wishing to apply for licence privileges  
23 are required to have a minimum of 50 rooms. This was  
24 requested by our Association and we think it will  
25 improve the standard of services and it will mean  
26 people who become involved in the industry will certainly  
27 be taking the matter seriously because it will involve  
28 at least initial expenditures of half-a-million dollars.

29 As you requested, a comment or two about the  
30 purpose of our Association. We began back in 1935. We



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1 have been very active in labour relations departments  
2 which negotiate numerous union contacts that are involved  
3 in the hotel industry in this province. We have our own  
4 publication which we put out each month and which averages  
5 around 40 pages. It is a quite well-presented publication.  
6 We are very proud of it.

7           We have a staff of three other people in the  
8 office along with myself. Our Directors are selected  
9 from various parts of the province, which I think is  
10 normal for that kind of association. Our prime purpose  
11 is to attempt to present the best interests of our  
12 members and to keep constantly in mind the greatest good  
13 for the largest number.

14           One of our most serious problems at the moment  
15 is the problem of the older downtown hotel where deteriora  
16 tion may have set in to some extent. These people face  
17 difficulty in competing. It was in this connection that  
18 we made our first point in our brief concerning a more  
19 flexible formula for economic growth so that some of the  
20 money they might have required to pay on taxes could be  
21 held in reserve and used during inflation when the  
22 economy needs an additional push. It would provide an  
23 opportunity for the hotel to improve its facilities and  
24 stay in business.

25           It is our opinion, with time, these hotels  
26 may eventually revert to homes for the aged or perhaps  
27 apartment projects. It does impose a very serious  
28 problem at the present time in all the larger cities  
29 across Canada. I think this covers very briefly, ladies  
30 and gentlemen, what I have in mind. I would be pleased



F5 1 to go on with Mr. Wainwright and Mr. Naylor to answer  
2 any questions you may wish to put.

3 THE CHAIRMAN: You sit down and we will ask  
4 you a few questions. Suppose we discuss not our taxes  
5 but the services we get in the hotels and the fact  
6 there are new hotels coming into being and the old ones  
7 will go out in the manner you suggest. Do you have any  
8 idea as to how the rates compare? You indicate the  
9 construction costs have, of course, increased. I would  
10 expect that. I would expect new hotels must have diffi-  
11 culty competing with the old hotels at old construction  
12 costs. I would be more sympathetic with that if I  
13 weren't very conscious of the increase in hotel rates.

14 I can remember back a few years and I know  
15 every time I go to the same hotel my bill is a little  
16 higher. Hotel rates have been going up. Have they  
17 been more or less keeping pace with hotel construction  
18 costs, or less?

19 MR. CORBETT: I would think they have been  
20 high because of additional responsibilities imposed.  
21 Before the hotel owner wasn't so heavily involved in  
22 promotion activity. This is a large expense which he  
23 didn't have. They get an extensive flow of business  
24 from travel agents who extract, say, 8 to 10 percent,  
25 and perhaps a higher percentage for seeking business  
26 this way. This is an additional charge in promotion  
27 and overhead. We have had a spiralling increase in  
28 wages from year to year, especially in this part of  
29 Canada. This represents additional costs would have to  
30 be carried. I think because the industry is over-built



F6 1 in a number of areas there are no restrictions upon  
2 2 room rates that may be asked.

3           There are a number of formulae that may apply,  
4 owners frequently are not in a position to apply this  
5 formula to the fullest extent because of intense competi-  
6 tion. I think their opportunities to get a fair margin  
7 of profit from rooms is better even than it is in the  
8 beverage department.

9           In the early history of the hotel industry  
10 they went heavily on the beverage department to produce  
11 profits. Now, we think in terms of rooms and food.  
12 Those are the most important departments. We have suffered  
13 an increase of staff amounting to in the neighbourhood  
14 of 43% without any increase in the price of beverages.

15           THE CHAIRMAN: For what period?

16           MR. CORBETT: Since 1943. This is brought  
17 about by the Provincial Governments across Canada. They  
18 tell us when we open; they tell us when we close; they  
19 tell us what we pay for it, and what we sell it for.  
20 When this increase in wages developed most other industries  
21 were able to add a few cents to carry that cost; say, a  
22 few cents on the price of furniture, and we couldn't.  
23 This is most important, this restriction in price.

24           THE CHAIRMAN: Do you like being controlled or  
25 do you not like being controlled? I ask that question  
26 because I can go back to the period of price control,  
27 and I remember theoretically most people didn't like  
28 price control, but in many instances it was rather easy  
29 to accept because not only did it restrict profits but  
30 it pretty well assured profits.



F7 1 MR. CORBETT: I think we have reached a point  
2 where we think there is merit in freezing prices and  
3 wages. This might not be politically possible, but it  
4 would put Canadians in terms of competition with other  
5 countries.

6 COMMISSIONER GRANT: Your suggestion of an  
7 investment reserve being set aside before payment of  
8 taxes, Mr. Corbett, I take it that that has application  
9 to all business, not only the hotel business.

10 MR. CORBETT: Yes, it does. We think it is  
11 particularly adaptable to the hotel industry as we are  
12 expected to keep up a good front, and this costs money.  
13 This would help us do it. Where they were holding the  
14 funds we could create development plans.

15 COMMISSIONER GRANT: From your intimate know-  
16 ledge of the hotel industry do you think the improvement  
17 or expansion plans for hotels or the building of new  
18 hotels - do you think that your efforts to raise capital  
19 are more difficult than they would be in any other kind  
20 of business?

21 MR. CORBETT: Yes, they are.

22 COMMISSIONER GRANT: What would be the reason  
23 this is so?

24 MR. CORBETT: These restrictions and the  
25 previous trends in the industry where so much of profit  
26 is contemplated on beverages which involve being licensed,  
27 and the licence could be taken away for any misdemeanour  
28 or problem that might develop.

29

30



G/MR/dpw

1 MR. CORBETT: I think this has had a tendency  
2 to create a very cagey attitude on the part of investors.  
3 The hotels themselves will obviously disappear, to some  
4 extent, with the advent of the greater costing of room  
5 business and food business.

6 COMMISSIONER GRANT: The profits are increasing  
7 in the hotel industry, I suppose, as a result of the  
8 enlargement in the sales of spirits and beer and wine?

9 MR. CORBETT: According to the D.B.S. figures  
10 that we get from Ottawa, which is our most reliable  
11 source, the net profit to the hotels is down.

12 THE CHAIRMAN: Net profit related to what? To  
13 the capital employed or the sales?

14 MR. CORBETT: To sales.

15 THE CHAIRMAN: Yes, I would think that is the  
16 case. I would think it might be up in relation to capital  
17 employed. Would you?

18 MR. CORBETT: It would depend, to a great  
19 extent, on the area, where there is considerable over-  
20 building. In this particular area I think it is fair  
21 to say quite a percentage of new hotels that have opened  
22 in the last couple of years are having financial problems.

23 COMMISSIONER PERRY: I remember two or three  
24 years ago seeing these same D.B.S. figures and it seemed  
25 at that time that something like half the gross revenue  
26 of hotels was coming from the beverage department.  
27 Would there have been much of a change in this in the  
28 meantime? Is it still that important, but just less  
29 profitable as an activity?

30 MR. CORBETT: It is gradually changing so that



G2 1 the increase in sales is from rooms and food. The profit  
2 that was earlier experienced from the beverage department  
3 is being curtailed because of the restrictions on prices.

4 COMMISSIONER PERRY: So that it is not only  
5 becoming a smaller source of gross revenue, but a less  
6 profitable activity in the hotel business?

7 MR. CORBETT: Yes. As a good example, we have  
8 hotels in downtown Vancouver who have applied for permis-  
9 sion not to open their beverage department at night at  
10 all.

11 COMMISSIONER PERRY: This is very illuminating  
12 to the layman.

13 MR. NAYLOR: Before we continue on, if I might  
14 say one word in reply to the previous two gentlemen: I  
15 think Mr. Corbett might have added that with regard to  
16 rate structure the hotel industry has a relatively high  
17 capital investment for the sales dollar. We are tied to  
18 a fixed asset in buildings, plant and equipment. We have  
19 a fairly rigid cost structure in operating. You have to  
20 run your elevators and burn your lights and staff your  
21 place regardless of your occupancy.

22 You cannot shut down number 2, 3, or 4 assembly  
23 lines when business gets quiet, like they can in a factory.

24 COMMISSIONER PERRY: We were in an hotel the  
25 other night where they did for a couple of hours.

26 MR. NAYLOR: I was in the dark myself. There  
27 have been other people in the promotional efforts; Howarth  
28 and Howarth of Chicago, who are the main accounting firm  
29 to the American Hotel Association, called over-building  
30 the number one problem in North American today in the



G3 1 hotel industry.

2           This, I think, sir, has kept rates down from  
3 where they might have gone, but the key to this question  
4 is occupancy. Now, occupancy is down both in the United  
5 States and Canada. Occupancy in Canada is subject to  
6 more seasonal fluctuation than it is in the larger  
7 centres in the United States. In Canada, in many places,  
8 it is, you might say, virtually a two-month operation.  
9 The rest of the year they just hope to get by so rate  
10 structure is only part of the picture. Occupancy is  
11 more important.

12           We are faced with a declining occupancy rate  
13 plus a situation of continued building owing to promo-  
14 tional effort. Now, promotion of new capital hasn't  
15 anything to do with what we are talking about. We are  
16 an existing business. They might have some resources to  
17 improve their premises so that they can compete. From  
18 the day you open a new building you are fighting obsoles-  
19 cence. As long as you are in that business, your obsoles-  
20 cence, repairs, alterations, as Mr. Corbett mentioned,  
21 maintaining your business to compete, is very important.

22           THE CHAIRMAN: Would you explain why your occu-  
23 pants are going? You include motels, I assume, in your  
24 Association?

25           MR. NAYLOR: We could include motels in that.

26           THE CHAIRMAN: So that the occupancy is not a  
27 transfer from hotel to motel?

28           MR. NAYLOR: No.

29           THE CHAIRMAN: It is out of those to somewhere  
30 else, is it? The number of tourists is not declining, I



G4 1 don't think.

2 MR. NAYLOR: The overall number is not declining  
3 but building has gone ahead of the pace more rapidly, I  
4 believe, than the increase in tourists. It has not been -  
5 tourism, I have always looked on in the hotel business,  
6 rightly or wrongly, as sort of an invisible export, some-  
7 thing like insurance. We may bring in foreign capital  
8 and it is vital; I think it is very important to our  
9 economy that we attract a good tourist industry in Canada.

10 THE CHAIRMAN: We will all agree with you  
11 without argument on that score, yes.

12 COMMISSIONER GRANT: Did I understand you to say  
13 that there is an increased occupancy of hotel rooms from  
14 year to year? We are experiencing an increase because of  
15 more tourists, but you have over-expanded. The industry  
16 itself is over-expanded. You have too many rooms to fill?

17 MR. NAYLOR: This has been a temporary thing,  
18 and also, as I say, we have a very seasonal business.  
19 Everybody today, at this time of year, enjoys a reasonably  
20 good occupancy, although the hotels are far from full in  
21 Vancouver. There are one or two spots in British Columbia  
22 where there has been an influx of tourists. I believe the  
23 Okanagan is one where there is a tight room situation  
24 right now.

25 A month from now they will all be empty. A  
26 lot of people, I think, have promoted this business when  
27 they look at the July, August picture.

28 However, in suggesting this reserve fund, we  
29 are not speaking about the promotion. As I say, this is  
30 something separate to the day-to-day operation of an



G5 1 existing business. There has not been - I would say that  
2 there has not been over-building in the downtown section  
3 of the City of Vancouver. In fact, there has been  
4 certain building that might have gone ahead which has  
5 been discouraged because a lot of the revenue has gone  
6 to outlying districts.

7 THE CHAIRMAN: Regarding your recommendation  
8 No. 1, there are two things, at least, that I can see  
9 against it. There may be others, and you may, and  
10 probably have, taken them into consideration and felt  
11 on balance they are outweighed. One is your flexible  
12 formula for economic growth which would, of course,  
13 benefit the prosperous hotels but wouldn't do anything  
14 for the hotels that are not prosperous because it's  
15 setting aside tax monies which are generated by pros-  
16 perous units. The other is, of course, the expenditure  
17 of this would be subject to government control. In fact,  
18 you would have recognized both those points, I assume,  
19 and still think it is a good idea.

20 MR. NAYLOR: Well, sir, in the first place I  
21 have got to admit that there is nothing logical about  
22 this. It is done, evidently with some success, in other  
23 countries. I believe Sweden and Germany have been cited  
24 as examples. It seemed to us that it was an answer, the  
25 best answer we have found to this question of what we  
26 call unfair competition in our industry where the gentle-  
27 man here quoted D.B.S. figures about the ratio between  
28 beverage revenue and room revenue.

29 Beverage revenues undoubtedly are of vital  
30 importance to all hotels, more so to some than others.



G6 1 This phase of the industry is getting highly competitive  
2 and a lot of it has gone to non-profit organizations.

3 Now, non-profit organizations are bad enough  
4 competition, tough enough competition, in the day-to-day  
5 operation, but they are able to accumulate surpluses  
6 out of their revenue, to which new construction and new  
7 alteration is made so we are not only losing out competi-  
8 tively in our day-to-day operation, we are, in the long  
9 run, losing out the whole race in that they will end up  
10 in this regard with much better premises than the hotel  
11 man can because the money that the hotel man pays to the  
12 Government in income tax the non-profit competitor can  
13 put it in the new plant and equipment.

14 I don't know whether I have expressed that  
15 adequately or not.

16 THE CHAIRMAN: You expressed yourself very  
17 clearly. You have taken us into your second matter  
18 here which I think is a good idea. Does anybody want to  
19 go back?

20 MR. NAYLOR: We feel that such a reserve is  
21 necessary. That is the only answer we can see to this  
22 problem.

23 THE CHAIRMAN: I would have thought that you would  
24 have given us a different answer on page 5 when you say:

25 "We recommend that all non-profit, tax-  
26 exempt organizations, clubs and associa-  
27 tions should be compelled to incorporate  
28 under the Companies Act. Such a policy  
29 would make necessary the filing of a  
30 complete financial statement which would



G7

1 show the state of surpluses and real  
2 property assets."

3 MR. NAYLOR: That is another answer, from another  
4 point of view. The first one is something that could be  
5 done by a change in the Tax Act. We feel the other one  
6 has to be a political, probably a political approach to  
7 the whole question.

8 THE CHAIRMAN: Well, we were curious, I think,  
9 as to why incorporation under the Companies Act would  
10 achieve what you are after; why you wouldn't expect a  
11 more direct approach under the tax laws.

12 MR. NAYLOR: Mr. Corbett went into this with  
13 some hotel people in the east, I think. I think he can  
14 answer that.

15 THE CHAIRMAN: We have had a representation  
16 on this score before, and the solution put to us was a  
17 different one than your own. That is why I am pressing  
18 it.

19 MR. CORBETT: This was a partial solution that  
20 was volunteered when we had a meeting in Ottawa last  
21 March and under the Companies Act it would require a  
22 full disclosure of their assets.

23 THE CHAIRMAN: To whom?

24 MR. CORBETT: To the Government. I think it  
25 was - or I believe it was - attempted with a good deal  
26 of success in the United States as a solution to their  
27 unfair competition. They eliminated a lot of organiza-  
28 tions being set up under the Societies Act who are not  
29 required to make a full disclosure of their assets and  
30 in this way are able to build up quite a creditable



G8 1 amount.

2 THE CHAIRMAN: Private companies do not now  
3 file full statements. I would think it would require legis-  
4 lation to make them do so.

5 MR. NAYLOR: This was done in the United States,  
6 sir. A bill did pass the first reading in Congress where-  
7 by an organization, fraternal or non-profit organization  
8 that catered to other than members, then became subject  
9 to this ruling. Where it was a legitimate organization,  
10 catering only to members, they remained as such but  
11 where they stepped out of their own field and went into  
12 direct competition with taxpaying businesses, then they  
13 felt they should play the game according to the same  
14 rules.

15 THE CHAIRMAN: If you are only going to ask  
16 them to file statements, that is not going to do very  
17 much. Surely what you would require is that they would  
18 lose their tax-exempt status if they go into commercial  
19 business?

20 MR. NAYLOR: This is what it would lead to.  
21 We are reaching for that, yes. I think it got worded  
22 this way because a start has to be made somewhere. As  
23 far as we could ascertain nobody really knows exactly  
24 what revenue is available, and whether or not it would  
25 be worth having the machinery set up to collect it. I  
26 think if these financial statements are made available -  
27 we don't have that answer; we can only surmise it, which  
28 really isn't good business. We don't like to speculate  
29 on it.

30 COMMISSIONER GRANT: Have you given any thought,



G9 1 or are you able to give us any suggestions as to how you  
2 would determine what competitors of yours are paying  
3 taxes?

4 MR. NAYLOR: Well, as I say ---

5 COMMISSIONER GRANT: What yardstick would you  
6 use?

7 MR. NAYLOR: In the United States the yardstick  
8 used was where they catered or solicited business from  
9 other than their own members, and we know that many of  
10 these organizations are actually advertising for banquet  
11 business, wedding parties, and the like, which is a field  
12 of many hotels, particularly the hotels known as conven-  
13 tion hotels who have all the facilities to cater to  
14 organizations, to dinners, and things that like, and we  
15 feel that these people, when they step out of their  
16 actual club activities and start competing in the open  
17 market for business, that they are placing the hotel man  
18 in an unfair position.

19 THE CHAIRMAN: I don't see why you don't come  
20 out forthrightly and say, "If these people are going to  
21 be commercial in their activities, they should pay taxes.  
22 We hereby recommend they do."

23 MR. NAYLOR: I agree with you. I think that  
24 perhaps is ---

25 MR. CORBETT: This method was selected because  
26 some time ago when this was discussed with the Tax  
27 Department they felt that the problem of collecting  
28 would cost more than the money they might collect so we  
29 then felt if they had full disclosure of monies earned  
30 that this would prove to them beyond a doubt it was



G10 1 worthwhile doing something about it.

2 THE CHAIRMAN: Okay. I would presume in 3,  
3 with regard to expense accounts for commercial travellers,  
4 as well as convention and sales meetings, that was really  
5 in anticipation that the drive on expense-account living  
6 in the United States may spread to Canada; is that what  
7 you had in mind?

8 MR. CORBETT: Yes.

9 THE CHAIRMAN: Since it has not yet spread,  
10 perhaps we can move on to Item 4, equipment write-off.  
11 It seems to me there is some validity to your suggestion  
12 here that a distinction should be made between the  
13 building and the equipment therein and that they should  
14 not necessarily be lumped together, as you have  
15 experienced. That has been the case in certain instances  
16 heretofore, I gather.

17 COMMISSIONER WALLS: Would there not be some  
18 difficulty in the separation of the valuation of the  
19 building as a whole as to the value of the components,  
20 because where do you stop in these components? An eleva-  
21 tor is a component; electrical wiring is a component.

22 MR. WAINWRIGHT: Mr. Chairman, Mr. Walls, this  
23 is quite true, but in our costing accounting today you  
24 can determine what these costs are, and they are consi-  
25 derable in their aspects. The heating system or the  
26 elevator costs as opposed to the structure proper, and  
27 accordingly we are suggesting that these be set up in a  
28 different classification because they become deteriorated  
29 quicker than what the actual buildings are subject to.

30 COMMISSIONER WALLS: That might apply on a new



G11 1 building, but suppose you bought an older building: how  
2 would you arrive at the cost of the wiring, and so on,  
3 in that building, because if you are going to make it  
4 applicable to one component, you have got to make it  
5 applicable to all of them.

6 MR. WAINWRIGHT: This is true. Unless you  
7 have the cost in the original case it would be somewhat  
8 more difficult to determine the cost. This would be a  
9 problem that would have to be solved, but it still would  
10 not prevent - wiring is an isolated case. We are talking  
11 more of where there is heating equipment becoming obsolete  
12 and worn out much earlier than the building itself, but  
13 under our present structure they are written off at the  
14 same rate as the building.

15 THE CHAIRMAN: You are not extending this to  
16 wiring and plumbing, are you?

17 MR. WAINWRIGHT: No. We are stating here  
18 particularly heating equipment. Elevators and escalators,  
19 assets of that nature.

20 THE CHAIRMAN: When you say "of that nature,"  
21 of course, I don't know how far you are taking it. I  
22 think you replied affirmatively to my question as to  
23 whether or not you would separate wiring and plumbing,  
24 or did you say that you wouldn't?

25 MR. WAINWRIGHT: No, I think this is not  
26 applied to wiring as such or plumbing.

27 THE CHAIRMAN: Thank you.

28 COMMISSIONER GRANT: I was wondering if your  
29 test as to what is part of the structure would not be  
30 determined by more or less the legal definition of a



Q12 1 fixture. That is to say, your radiation would be part of  
2 the structure but your boilers which generate the heat  
3 would be in the nature of machinery and equipment, and,  
4 therefore, you would be allowed a high write-off on  
5 those items and that would apply to your air conditioning  
6 system; anything that was in the nature of a motor or  
7 filtering system, and so on. They would be in the  
8 category of machinery or equipment?

9 MR. WAINWRIGHT: Yes.

10 COMMISSIONER GRANT: And as such subject to a  
11 higher write-off. So, too, with motors to run elevators  
12 and escalators, whereas that part of the structure that  
13 is built in and became an essential part of the build-  
14 ing, and a fixture of the building, would be regarded as  
15 part of the building and subject to the building writ off.

16 MR. WAINWRIGHT: Perhaps there is a legal  
17 distinction there and perhaps the component parts of a  
18 particular unit, such as the elevator, one component  
19 part, would last longer than another, but overall there  
20 isn't that.

21 THE CHAIRMAN: I would like to ask Mr. Grant  
22 right now whether there isn't a difference between Quebec  
23 and the rest of the provinces in respect to movables  
24 and immovables.

25 COMMISSIONER GRANT: Yes, there is.

26 THE CHAIRMAN: Which might cause trouble, I  
27 think.

3 28 COMMISSIONER GRANT: I think so far as the  
29 application of the laws is concerned, at the present time  
30 the law that applies to the common law of the province is



G13 1 the law that is being enforced and you are allowed to  
2 write off what you regard as the component part, as  
3 distinct from the basic parts, at a higher rate of depre-  
4 ciation.

5 THE CHAIRMAN: Not in all cases. This is the  
6 basis for possibly the lighting and the air conditioning  
7 which is frequently included in the total cost of the  
8 building and amortized at the same rate of building in  
9 the income tax practice.

10 C MR. WAINWRIGHT: That is right, either 5 or  
11 10 percent. The 20%, class 8 rate, is what we would  
12 like to get it into.

13 THE CHAIRMAN: I would assume a reply to you  
14 would be: if we should segregate this, we would then use  
15 a lower rate on the building and class 8 for the others.  
16 Wouldn't you assume that?

17 MR. WAINWRIGHT: Yes.

18 THE CHAIRMAN: That, of course, would be  
19 perfectly satisfactory?

20 MR. WAINWRIGHT: Yes.

21 COMMISSIONER PERRY: I just had one point on  
22 this item; I notice in the proposal for carpeting you  
23 mention it in terms of straight-line basis. Now, is  
24 there some reason for this? Normally it is only farmers  
25 and fishermen who depreciate anything on a straight-line  
26 basis for income tax. Was this intentional, or just a  
27 slip of the tongue?

28 MR. WAINWRIGHT: No. I think the President  
29 here will bear me out in this. Experience has shown that  
30 carpeting does not last any longer than a five-year period



G14 1 in a busy hotel and owing to requirements for renovation  
2 and alteration, your carpeting is obsolete usually within  
3 that period of time. This is the reason for the suggested  
4 one-fifth write-off, or 20% on a straight-line basis.

5 THE CHAIRMAN: I don't think that makes the  
6 point. If it is going to be written off in five years  
7 on 20% straight-line basis, this is as good as the 40%  
8 on the diminishing balance, is it not?

9 MR. WAINWRIGHT: This, perhaps, works that way.

10 COMMISSIONER PERRY: What is it now; 20% rate  
11 which is the class A?

12 MR. WAINWRIGHT: Yes. What we are suggesting  
13 is the 40% calculation is right on the diminishing  
14 balance.

15 THE CHAIRMAN: When you speak about a straight-  
16 line rate, we are wondering whether you want to avoid  
17 recapture. That is not what you had in mind?

18 MR. WAINWRIGHT: No. What we do have in mind,  
19 we would like a realistic rate to the life of the asset.

20 COMMISSIONER GRANT: You could not go on a  
21 straight-line basis for certain parts of your equipment  
22 and a capital cost allowance basis on another, could you?

23 MR. WAINWRIGHT: No, that is true, but in  
24 answer to that question, you are having leasehold improve-  
25 ments written off on a straight-line basis whereas  
26 capital assets are also written off on the diminishing  
27 balance.

28 MR. NAYLOR: I might mention - I think this has  
29 come about in recent years more because carpeting is now  
30 used in high traffic areas whereas it never used to be,



G15 1 except in really luxury hotels. Now, this was widely used  
2 in so many hotels that there is a growing demand for  
3 better write-off. There never used to be carpeting in a  
4 lobby of a hotel; either terrazzo or a cheaper hotel -  
5 that would be linoleum, something like that.

6 THE CHAIRMAN: Carpeting is a lot tougher than  
7 it used to be?

8 MR. NAYLOR: Yes, it is getting tougher, and  
9 this nylon under abrasion will wear almost indefinitely,  
10 but this is the weakness of - people drop hot ashes on  
11 it, cigarette ash, and so on - there is some difference  
12 of opinion on this. A lot of people still think the old  
13 wool is still the best all-around carpeting. It resists  
14 burning, which is quite a thing in hotels. I put down  
15 a new carpet in a room six months ago and this room  
16 happened to be damaged. The carpet has got to be taken  
17 up already because of burns.

18 Now, this is something that happens very seldom  
19 to you, but it can happen, so averaging it all out between  
20 accidents to carpets, high traffic areas which were never  
21 used before, I think it averages out that you get less  
22 life out of your floor covering than used to be customary  
23 in the industry.

24 COMMISSIONER GRANT: Of course, it depends on  
25 the policy of the management. All hotel rooms are  
26 insured for fire.

27 MR. NAYLOR: You cannot make claims on - if you  
28 have a multiplicity of little claims, you will find your  
29 insurance rates go up so I doubt if many hotels make  
30 claims for these little \$25, \$50, \$100 damages.



1 THE CHAIRMAN: Thank you very much indeed,  
2 gentlemen. I think we understand what you put before us  
3 and we will certainly consider your submission. It will  
4 be some time before we report, but I can assure you we  
5 will keep your thoughts before us. Thank you very much  
6 for appearing today.

7 MR. CORBETT: Thank you very much, sir.

8 THE CHAIRMAN: All right, Mr. Secretary.

9 THE SECRETARY: Mr. Chairman, Mr. G.M. Bell is  
10 present this morning. Mr. Bell could not be present  
11 when we were going to be in Calgary and has come forward  
12 to Vancouver to present his brief. I will now enter this  
13 brief into the record as Exhibit No. 135.

14  
15 --- EXHIBIT NO. 135: Submission of Mr. G.M. Bell.

16  
17 SUBMISSION OF MR. G.M. BELL

18 THE CHAIRMAN: Thank you, Mr. Secretary. Good  
19 morning, Mr. Bell.

20 MR. BELL: How do you do, sir.

21 THE CHAIRMAN: I should congratulate you on  
22 your recent election as a Director of the C.P.R., which  
23 I think I noticed in yesterday's paper. Am I correct?

24 MR. BELL: Yes, sir. I have to commiserate  
25 with the other directors.

26 THE CHAIRMAN: I said that for two reasons.  
27 One: because I meant the congratulations, and the other:  
28 to make sure I had the identification correct. I  
29 thought I had, but I wasn't sure. We have read what you  
30 put before us with some interest and we will have a few



G17 1 questions to put to you. Your major activity, Mr. Bell,  
2 is a newspaper publisher; am I correct?

3 MR. BELL: Yes, sir.

4 THE CHAIRMAN: In Calgary, the Albertan, I  
5 think, was your paper, and unquestionably if you live  
6 in Calgary, you will have some familiarity with the oil  
7 business, too.

8 MR. BELL: Yes, I have been in the oil business.

9 THE CHAIRMAN: And I rather suspect that your  
10 remarks with regard to the distinction between capital  
11 and income in the Act were based, to some extent, on  
12 your experience in the oil business; am I correct?

13 MR. BELL: Yes, sir.

14 THE CHAIRMAN: I note the oil industry has had  
15 difficulty in this connection. At least, I understand  
16 they have. Some members have. You start off by saying:

17 "The arbitrary attitude of the Department,  
18 because of the indefinite nature of the  
19 Tax Act, puts the taxpayer in a most  
20 unfair position by making him seek the  
21 court for a decision, while interest  
22 continues on tax arrears and non-deduc-  
23 tible court costs mount."

24 The arbitrary attitude which you refer to is,  
25 I assume, the decision by the Department as to what is  
26 capital and what is income. Is that what you have in  
27 mind?

28 MR. BELL: Yes, sir. In fact, I don't think  
29 there is any official reference to capital anywhere.  
30 This seems to be a presumed term, as far as the citizens



G18

1 are concerned. I think because of this particular defi-  
2 ciency in definition that there is a great amount, a  
3 considerable amount, maybe a great amount, of intent on  
4 the part of the community to indulge in what they feel  
5 are capital activities, resulting in capital accretions  
6 that the Department consider as income, and I think it is  
7 fair to say that those that are professional in the  
8 matter of interpretation of the law, and the presumption  
9 of the law, that is the legal profession and the  
10 accounting profession, at least in my experience, and in  
11 the communication that I have made with others, we have  
12 never been able to find, or to get an opinion that doesn't  
13 have a qualification with it.

14 In other words, nobody seems in all of Canada  
15 to be able to say, with certainty, that such-and-such an  
16 activity is in fact in the capital field, to use this  
17 term, and because of this great uncertainty I submit,  
18 sir, that there is then a great withholding of capital  
19 venture that I think the country sorely needs.

20 THE CHAIRMAN: Are you under the impression  
21 uncertainty is greater in Canada than elsewhere in the  
22 world? I gather that there is uncertainty in every  
23 country in this area and I do not think that that is any  
24 reason for not trying to clarify it or to reduce uncer-  
25 tainty.

26 MR. BELL: Yes, you are probably right. Until  
27 recently, I think it is true the U.K., for example, has  
28 studiously and diligently by-passed the matter of capital  
29 definition but recently I think they invoked some law in  
30 connection with speculative gains.



319 1 THE CHAIRMAN: That is right.

2 MR. BELL: That may be a somewhat circuitous  
3 way of getting about this particular subject, in reply  
4 to your query? In the United States people seem to  
5 compalin that notwithstanding some definition of capital  
6 and the terms that are employed in definition, notwith-  
7 standing that, there is still the arbitrary business of  
8 capital and income.

9 I also submit that where there is this capital  
10 definition, there is, at least a somewhhat lesser attitude  
11 of arbitrarily determining anything as income.

12 THE CHAIRMAN: One would think that might be  
13 so, but if one sweeps up a lot of transactions by a  
14 general classification, I think that is a better word  
15 than definition, to apply to either the United States  
16 or the U.K., it removes a lot of transactions from the  
17 uncertain area, anyway.

18 I think that in both those countries they have  
19 very much the same trouble as we do. Certainly, the  
20 American administrators in the United States have not  
21 succeeded in a clear distinction between capital and  
22 income. As you are probably aware most economists can  
23 see very little justification for the distinction between  
24 capital and income as accepted in the States and Canada and  
25 the U. K. We have heard a good deal about this already in  
26 the briefs we have received. Mostly people saying to us  
27 that they cannot see much difference between the two,  
28 and it provides spending money to the recipient, as a  
29 rule, and that they are both income. That is ignoring  
30



G20 1 the traditional difference there is in Canada and in the  
2 United Kingdom, and I think also in the States.

3 MR. BELL: I think, sir, that the essence of  
4 the issue is not the merit or otherwise of the declara-  
5 tion of goods as income and assessing of taxes. I think  
6 the illusion that exists that by certain activity that  
7 things might be - you take the risk of loss, too, and  
8 that if there is an accretion in the original investment  
9 or amount, that that is in fact a capital accretion but  
10 economists - and I certainly have only read a few of  
11 them - but there is a Dr. Lutz, a not unimportant econo-  
12 mist, I think, of Chicago who points up that one of the  
13 tests of capital in this particular context with the  
14 realization of capital increment, one of the tests is  
15 what was done with the increment? Was it spent or was  
16 it put into other capital goods that would produce  
17 income? I think that is not an unreasonable test but to  
18 be specific about the tax authority and terminology, I  
19 think - I am just a layman - but I think two essential  
20 tests are in the adventure in the nature of trade, and  
21 intent.

22 Adventure in the nature of trade, I think, is  
23 a term from the English customs history of about 1805  
24 that has found its way down to the Canadian Tax Act in  
25 1949, went through some British evolution, and I submit,  
26 sir, that this is a very indefinite terminology, and the  
27 matter of intent, I think, leads to a tremendous amount  
28 of discrimination.

29 I think that - let us say most traders in the  
30 stock market have an intent of making some money, a



G21 1 profit, a term employed in some areas with disrepute and,  
2 consequently, under the Act that in fact should be taxed  
3 because apparently, according to some of the authorities  
4 in the Tax Department, because it would be improvident  
5 to attend to this great mass of accounting, that these  
6 levies are never made.

7 On the other hand, maybe in some other segment  
8 of the society gains are made and the accounting and  
9 other procedures are not quite so cumbersome and are  
10 singled out. I am not trying to make a case for any  
11 particular person but I do think that these are discrimi-  
12 natory things that are happening every day and I don't  
13 think there is any justice or equity in that type of  
14 discrimination.

15 THE CHAIRMAN: I think it's in fairly recent  
16 times that the Tax Department has directed itself against  
17 land transactions to the extent that it has, 20 years,  
18 perhaps 15 years ago. Perhaps they have put more weight,  
19 more effort, into taxation of those lands than they have  
20 securities. I don't know whether this is so or not, but  
21 it has been suggested.

22 MR. BELL: There are other tests, frequency  
23 of trades and time. None of these things are in any  
24 Act. Certainly time is not and yet the Department  
25 employs time as its own test, particularly when an inequi-  
26 table situation arises. Let me say I fully sympathize  
27 with the State in the fight for its income, and that it  
28 has to be raised and that it is going to be raised  
29 largely through areas that are the most able to pay.

30 Now, where the Department - and to use its



G22 1 own term - says this is a grey area of the law, let the  
2 courts decide. Taking it from there, what happens? A  
3 taxpayer - now, this is the courts to decide, this is  
4 not an issue of any wilful evasion of taxes or some  
5 other dishonest approach to things. This is in the grey  
6 area. This is the terminology that is used by the  
7 Department: let the courts decide. What happens? The  
8 taxpayer, first of all, he has to put up the amount of  
9 the assessment to even get into appeal. Whether or not  
10 the interest on the amount goes to the State or goes to  
11 a loaning agency is of some concern but what happens is,  
12 of course, that the interest continues during this  
13 process of the adjudication.

14 I think it is a matter of observation. I don't  
15 think anybody would challenge it, particularly if you  
16 take these things through to their logical court process,  
17 the lapsed time, I think three years, or it might be  
18 considerably more than that. At the rate of taxes,  
19 that would be 18% in three years, 6% a year, and all of  
20 it, the onus is on the taxpayers themselves to declare  
21 something in the law that even the Department cannot  
22 particularly determine and it seems to me that if these  
23 things arise, at least pending the decision, no interest  
24 should be levied against the taxpayer and certainly I  
25 think some of the cost factor that he has to indulge in  
26 should be, at least some of it, should be given relief  
27 by charging against his income because the recipient of  
28 that income is certainly paying taxes on it so it is not  
29 that the State is being denied anything. I think it is  
30 just equity and fairness.



GE3 1 I submit that the term "adventure in the nature  
2 of a trade" should be stricken from the Act or some more  
3 definite term should be included, and then the legal  
4 and accounting profession could - at least the greater  
5 percentage - have in this hazardous area a determination  
6 at least established and they could render judgments to  
7 the client.

8 THE CHAIRMAN: You believe that the imposition  
9 of capital gains tax would remove some of the difficulties?

10 MR. BELL: I do, but I do not believe in the  
11 role of capital gains tax particularly to add some relief  
12 in this matter of income and capital determination,  
13 although it is a point. I believe that in the society -  
14 that since the State needs money, that all of the areas  
15 of ability to provide the money should be investigated,  
16 and certainly incremental aspects of capital realized,  
17 not just a book entry, but realized; certainly could  
18 afford to pay some of the costs of running the community.

19 COMMISSIONER WALLS: My question primarily deals  
20 with your paragraph 8, and your paragraph 13. In para-  
21 graph 13 you say if the sales tax were increased 20%,  
22 this would permit the elimination of some of the lower  
23 brackets and the easing in the upper brackets of income  
24 tax.

25 In paragraph 8 you make the recommendation  
26 to eliminate most of the exemptions on sales  
27 tax. First of all, of course, I should like to congratu-  
28 late you on being a brave man these days, in view of  
29 recent happenings, to make such a recommendation, but  
30 it seems to me that you have not - and I would like you



Q24 1 to correct me in this - you have not taken full advantage  
2 of your figures here.

3 I think you have a great deal more than 200  
4 million to work with. I think you have 800 million at  
5 least because your 200 million is based on your 20% of  
6 the sales tax collected last year, which was a little  
7 over one billion dollars.

8 MR. BELL: Your figures are a little more  
9 recent than mine. They were not available to me.

10 COMMISSIONER WALLS: But your figure is quite  
11 correct insofar as you deal with the actual sales tax  
12 paid last year, but now, if you eliminate most of the  
13 exemptions, a very conservative figure on that would be  
14 about 500 million, so you now have one-and-a-half  
15 billion to take the 20% off, which would give you 300  
16 million instead of the 200 million plus your 500 on  
17 exemptions you have eliminated, so it seems to me instead of  
18 200 million to work with, you have 800 million to work with.

19 MR. BELL: There is a little semantic difference  
20 here in the term "exemptions," but I must confess that  
21 I was not foreseeing what the Finance Minister was going  
22 to do, nor did I take the exemption factor quite as far as  
23 he did. I think in the consumer goods area there are  
24 a lot of so-called essential items that do not bear the  
25 taxes and it was my view that there could be some rev-  
26 sion in this without endangering the stimulus of the  
27 capital input in building, and so on, and foodstuffs,  
28 and things of this nature.

29 My particular interest here was in the revenue  
30 incidence of taxation; not necessarily in the increase



G25 1 of income, bearing in mind again the basic principle,  
2 or some of the basic principles of levying taxes in the  
3 community, and it strikes me that about a million-and-a-  
4 half taxpayers with income less than \$3,000, paying  
5 \$160 million in income tax, and some 495 people earning  
6 over \$100,000 pay some \$33 million in taxes, and 2,500  
7 others earning \$50,000 to \$100,000, and so on, with the  
8 sweeping gradations of taxes, up to a certain point,  
9 that some relief at each end of this scale might be  
10 given.

11 Certainly the \$160 million would find its way  
12 into the consumer goods market - a considerable amount of  
13 that would pay the sales tax. I am not an economist so  
14 I couldn't employ co-efficients generating acceleration  
15 and times in a given time that that particular money in  
16 the consumer market would evolve, but certainly it would  
17 be of benefit to those paying, that would have great  
18 difficulty in paying even the \$160 million. They are  
19 also paying some taxes, of course, through the sales  
20 tax. The upper level of the income taxpayers, I submit,  
21 with this modest relief of \$40 million spread over the  
22 100-odd million paid by them - considerable of that  
23 would find its way into the capital market.

24 COMMISSIONER WALLS: In reality, then, you do  
25 not necessarily want to increase revenue, as such, from  
26 the sales tax; only sufficient to take care of the two  
27 factors? In other words, all that you require, whether  
28 taken from exemption or taken from an increase in the  
29 20% is your \$200 million; is that it?

MR. BELL: This is the particular attitude that



G26 I submit is merely the incidence of taxation, not, at the  
2 moment, to generate more income. I think, though, the  
3 economy would benefit and certainly the administration  
4 of the Tax Department would be a lot easier with a  
5 million-and-a-half people removed from it, so that their  
6 particular complaint - and it is a curious thing that some  
7 of the more liberal people in the community have not  
8 made the issue on capital gains tax that you might anti-  
9 cipate, and I think probably because on investigation  
10 they find that the cost of administration seems to make  
11 the whole application improvident.

12 In the United States, in the last tax year,  
13 there was some \$54, \$56 billion of income tax and capital  
14 gains tax collected federally, and yet the total capital  
15 gains tax was only about \$1 billion, but surely, with  
16 the electronic devices that I understand the Department  
17 is renting, and the tremendous relief that can be given  
18 from the removal of a million-and-a-half people, that  
19 the levy of a modest capital gains tax would render a  
20 net income to the State.

21 COMMISSIONER WALLS: You still feel in favour  
22 of a graduated scale in between the two levels that you  
23 are talking about? The use of the graduated income tax  
24 scale?

25 MR. BELL: There have been those, of course,  
26 that I have a great respect for their judgment, that  
27 have suggested that there be a straight-line levy on  
28 income tax that would yield just as much money as the  
29 State gets now. I wouldn't particularly challenge that.  
30 I don't know whether society can accept it from a



G27 1 practical point of view, in that sense.

2 THE CHAIRMAN: You have just stated that the  
3 United States capital gains yield was about \$1 billion.  
4 I was wondering where you got that figure from.

5 MR. BELL: I have had some difficulty getting  
6 it.

7 THE CHAIRMAN: I have tried to find out what  
8 their yields were, because they don't sort it out on their  
9 tax returns and it can only be an estimate and I haven't  
10 seen a good estimate.

11 MR. BELL: I asked the American Consul in  
12 Calgary to assist me in this and I got quite a fund of  
13 information that I had to return to him, and about \$1  
14 billion was the figure from the Inland Revenue Service.

15 THE CHAIRMAN: Thank you very much. I will pursue  
16 that figure because I am extremely interested in it. We  
17 haven't got one.

18 MR. BELL: I have yet to find anybody that  
19 could tell me exactly what that is. Funston of the Stock  
20 Exchange has commented on the capital levy in the United  
21 States and, of course, under these new revisions that  
22 are being proposed there is even going to be a graduated  
23 scale, and there were figures submitted. If the capital  
24 levy was reduced to, say, about  $12\frac{1}{2}\%$ , that it might  
25 yield five billion instead of one billion.

26 COMMISSIONER MILNE: This is really for my own  
27 personal clarification, because you have made rather a  
28 point all through about everything being clearly defined,  
29 and this does apply in more than this one instance, but  
30 it's in item 3 that I am asking the question. You suggest



G28 1 the consideration of a capital gains tax - which very  
2 definitely will be done, that is consideration will be  
3 given. Are you also suggesting the imposition of a capital  
4 gains tax? Am I right in assuming that?

5 MR. BELL: Yes, and my friends are hardly my  
6 friends as a result of it.

7 THE CHAIRMAN: I have got a note here, but I  
8 can't find it - referred to in your submission. You  
9 apparently suggested that losses in developing resources  
10 should be allowed to a greater extent against personal  
11 income.

12 MR. BELL: Yes, sir.

13 THE CHAIRMAN: Would you enlarge on that?

14 MR. BELL: Yes, I think that is in 7, or in 5.  
15 Much comment is made about foreign investment in the  
16 extractive resources of Canada, and that there is a  
17 great weight of ownership on the side of foreign interests.  
18 Personally, I think Canada is the beneficiary on that  
19 score, but one reason for this is that, at least, the  
20 United States permits individuals to explore in the  
21 highly speculative extractive industry area: mining,  
22 oil and gas, and permits that upon abandonment of  
23 a failure, that the cost can be charged against personal  
24 income.

25 Now, I suggest, sir, that very few Canadians  
26 as individuals - I don't mean by the corporate route,  
27 but as individuals - put any of their money into these  
28 ventures because their chances are they will lose, and  
29 there is no way in which they can write it off, and,  
30 moreover, under the new legislation, if they succeed,



G29 1 they cannot sell it except as income. This is now clearly  
2 defined so that if we want more Canadians to take part in  
3 these ventures in the extractive industry field: oil and  
4 gas and mining, I suggest that this type of relief by  
5 being able to charge against personal income would have  
6 a fairly dramatic effect on sources of capital in Canada  
7 by Canadians who go into this type of venture.

8 THE CHAIRMAN: I have seen Americans in the  
9 90% tax bracket spending money in Canada on exploration,  
10 because, as you say, the loss is \$9 of the Government's  
11 money and \$1 of their own. They can well afford to  
12 take some very tall risks where, if they are successful,  
13 the pay-off is in capital gains tax, which would be a  
14 very reasonable rate, and I ask you whether you believe,  
15 despite what you say up to now, it would be in the  
16 interests of the Canadian nation to try and match that  
17 legislation. I am rather doubtful.

18 MR. BELL: I think so, sir. I think that  
19 there are many - of course, to employ the correct  
20 figure to all this 88%, or whatever the upper ranges  
21 of tax might be - that is the Government's money and,  
22 of course, technically it is the Government's money but,  
23 of course, if they raise the tax to 100%, it is all  
24 their money. We don't have any money. If, of course,  
25 this is evolved that, of course, will remove all interest  
26 in these meetings.

27 THE CHAIRMAN: We will all go fishing.

28 MR. BELL: So that I say that I think if  
29 there is anything to this business of Canadian partici-  
30 pation in their own resources, there has to be some kind



G30 1 of incentive. The hazards are quite measurable. If you  
2 are up against expropriation by virtue of the income tax,  
3 and no relief for charging against your other income  
4 resources, then I submit that is why we don't do it.  
5 We won't continue to do it and we will sit and talk about  
6 what a wonderful country we have; all these wonderful  
7 mineral resources, and we will have them 200 years from  
8 now. That is actually happening in Alberta, and we will  
9 have 6%, 10%, 15% of the people unemployed. Excuse me  
10 sort of sermonizing.

11 COMMISSIONER GRANT: Most of the exploration  
12 work which would be undertaken now, and the type of work  
13 that you envision in paragraph 5 would, I suppose, be  
14 undertaken by a limited company, joint stock company?

15 MR. BELL: Yes, sir.

16 COMMISSIONER GRANT: Whereas if the proposals  
17 which you advocate here were put into effect, then that  
18 would give an incentive for an individual to strike out  
19 on his own?

20 MR. BELL: Precisely. This is done, sir, in  
21 the United States to a great extent and I think you will  
22 find that they have a tremendous so-called independent  
23 interest in the development of these resources in the  
24 United States and they, of course, are being developed  
25 almost to the optimum so they are going elsewhere. They  
26 seem to think - at least in the past they did - that  
27 Canada is not unattractive. So if it is good for others,  
28 I don't think it is too bad for us.

29 COMMISSIONER GRANT: That risk capital has  
30 been undertaken by the individual himself in his own



G31 1 right, without being incorporated?

2 MR. BELL: That is right. Now, as far as  
3 Canadians are now concerned there has been given more  
4 definition to this particular area which favours companies  
5 and usually deal with all of the items of the tangibles,  
6 intangibles, land cost, particularly, and these can now  
7 be written off. Before they couldn't be and they said,  
8 "Of course, if there is any sale of them, that that is  
9 income." Well, that is good for the companies  
10 in perpetuity, and so on, and all other concepts of  
11 corporate life, but with an individual that gets into  
12 this type of activity, if he succeeds, and I can illustrate  
13 that they can in a number of places, that the demand then  
14 for further capital is tremendous and then the individual  
15 must assume that tremendous responsibility or sell out  
16 but there is hardly much incentive for selling out if  
17 the entire amount is income, and in fact I can show you  
18 the rate of tax could conceivably come to more than the  
19 gain and you don't get much of a plea on this score from  
20 the industry, because industry is 100% corporate.

21 COMMISSIONER GRANT: But there is no inducement,  
22 at the present time, of course, for the individual to  
23 strike out.

24 MR. BELL: That is right. And without indul-  
25 ging too much in the first person, I think I may be the  
26 only man, as an individual, that has ever drilled for oil,  
27 and that is not for the press.

28 THE CHAIRMAN: In paragraph 9 you recommend  
29 incentives as to corporation taxes. Would you consider  
30 depletion as permitted to the oil and gas industry an



G32 1 incentive, or would you consider it a deduction for the  
2 appropriate measurement of income? Have you thought  
3 about that?

4 MR. BELL: Well, yes, to the extent that  
5 certainly it is a wasting asset, or depletion, if that  
6 is synonymous, as opposed to the conventional business,  
7 the present worth of things over whatever the lifetime  
8 is. There is a calculation that must be made for deple-  
9 tion. Did you ask me is this an incentive?

10 THE CHAIRMAN: I asked you whether it was some-  
11 thing used to appropriately measure the income of the  
12 enterprise, or whether it was something over and above  
13 that which one would call an incentive.

14 MR. BELL: I don't think it is an incentive.  
15 Conversely, I would say that if it wasn't there, there  
16 would be less development.

17 THE CHAIRMAN: I would accept that readily.  
18 It has probably done something for development. I have  
19 yet to find a financial statement with percentage deple-  
20 tion reflected in it. I would think that if it was a good  
21 measurement of income it would have appeared in financial  
22 statements before now. I can quite see that it has as-  
23 sisted the development of the oil industry and the gas  
24 industry, probably to its justification, but I think  
25 that is probably because it would be a good plan to have  
26 an incentive for such development.

27 MR. BELL: I think part of their logic in  
28 this industry - and I am speaking over the bounds of any  
29 competency - I don't have too much anyway, but one of the  
30 issues, of course, of depletion is the great need for



G33 1 replacement and expansion, particularly in the extractive  
2 industry. That is the only place it applies, of course.  
3 It is an arbitrary thing. In the United States 27½%  
4 was a political compromise. Whether it is 27½ or 50  
5 percent of the net, or a third of the net, it would be  
6 a little difficult for me, sir, to say exactly where it  
7 should be.

8 THE CHAIRMAN: I am not asking you to give us  
9 any measurement of it.

10 MR. BELL: I think it is necessary, and without  
11 it, whether incentive or not, there would be a great  
12 deal less development.

13 THE CHAIRMAN: You are not answering my ques-  
14 tion, but thank you very much for your contribution.

15 MR. BELL: Nobody has asked me, and I don't  
16 know whether you care to ---

17 THE CHAIRMAN: Please volunteer.

18 MR. BELL: In Section 10, again on the inci-  
19 dence of taxation - now this is something to get more  
20 income for the State, and I would have to preface any  
21 comment of mine that the agencies that I specifically  
22 mention, at least two of them, I believe, make a great  
23 contribution, and probably they all do, to the economic  
24 life of the community and there are no substitutes for  
25 them but in this business of raising more money, I  
26 wonder if they don't enjoy some remissions or benefits  
27 that the rest of the community has to bear.

28 One I have already dealt with is this capital  
29 accretion area where I think they should be assessed  
30 something on an economic and social basis and I do not



G34 I think a modest amount would deter any of the enthusiasm  
2 or our ambition to have more of the world's goods.

3 In the matter of life companies, for example,  
4 that don't seem to have to pay very much income tax, and  
5 it is an interesting thing to observe that a report by  
6 an outfit called Goddard and Company of Boston put out  
7 a pamphlet that deals with 100 companies, showing the  
8 greatest growth since 1951. You have to get to No. 18  
9 before you get away from a life company, and that is the  
10 Goodyear Tire and Rubber Company. Nineteen was the  
11 Jefferson Life, and so on.

12 If we examine the input of capital into the  
13 life companies, I think that the presumption that they enjoy  
14 advantages through increments on a compounded or geometric  
15 basis is borne out. In fact, I can recite certain Canadian  
16 companies; one that started in 1913 with about \$1 million,  
17 today it's net asset value is \$23 million. I can cite an  
18 American company that started in 1941 with \$20,000 and  
19 its net asset today is \$84 million, and I think many of  
20 us are not persistently, but frequently called upon by  
21 people in the financial business selling securities and  
22 they all report, and almost certainly with enthusiasm,  
23 they will try to sell insurance companies, although they  
24 are getting fewer of them in terms of private ownership.  
25 All of them recite the fact that they have tax advantages.

26 I think it is reasonable to presume, on examina-  
27 tion of what in fact happens, life companies are, to my  
28 way of thinking, bankers in the long term, and that the  
29 policyholders are depositors, just the same as depositors  
30 in the commercial banks in the short term. The insurance



G35 1 companies render a great service in provision of capital  
2 and I think the economic vitality of the community is in  
3 their interest, and I suggest that if we examine their  
4 withheld income for the purpose of compounding - that they  
5 are in fact not paying income tax. True they do pay when  
6 they declare dividends. I understand they declare sur-  
7 pluses, which would be double the dividend; half to the  
8 State and half to the shareholders.

9 With mutual companies, of course, as with  
10 co-operatives, which are also, I suppose, mutual, the  
11 only measured taxes can be the net worth accretions, and  
7 12 I think that I noticed last month, July, in a recent  
13 publication, that the face value of life companies,  
14 pensions, et cetera, that were sold last month were  
15 something over half-a-billion dollars. I don't know what  
16 the basic rate would be, but multiplied by 12, and so on,  
17 that is several hundreds of millions of dollars that  
18 immediately go to work earning interest, and the interest  
19 on the interest.

20 Now, this is the only place that I know of in  
21 the commercial world that this is permitted. In 1950  
22 Canada was somewhat concerned with Americans coming in  
23 and buying insurance company stocks. They in fact limited  
24 the dividends to shareholders so that people couldn't  
25 come in and, of course, manipulate the surplus and  
26 really have these things for nothing. It was inevitable,  
27 but on the other hand maybe we have been denied a substan-  
28 tial income though really even insurance companies could  
29 hardly find any fault with paying something that could  
30 be readily determined as profit.



1 Then I think the commercial banks, for which  
2 I have every respect, I don't think we would have moved  
3 an inch without them, possibly at the time when the  
4 Home Bank - I am not that old, when some of these finan-  
5 cial disasters took place, they wanted to strengthen the  
6 banking system and they have something called hidden  
7 reserves. Very difficult to find out. They are not in  
8 any statement, yet the rest, the majority of the accounts,  
9 are presumably their net worth. They have multiplied  
10 considerably when related to the input of capital. They  
11 have been well managed, and they should.

12 On the other hand, several of the banks are  
13 now paying dividends, some dividends out of hidden  
14 reserves. Last year - I think if you read the Royal  
15 Bank report and the Bank of Montreal - that part of their  
16 dividend was the result of declaring a surplus from  
17 hidden reserves with the commentary, to paraphrase, that  
18 in the light of examination they did not think they  
19 needed as much hidden reserve, and, consequently, were  
20 going to distribute it.

21 THE CHAIRMAN: May I interrupt, Mr. Bell? I  
22 think that what occurred there was a reduction in the  
23 hidden reserve - I think I remember this - and they were  
24 brought down to a figure less than the figure you refer  
25 to here as being 6%; something less than that.

26 MR. BELL: The only way I found that figure,  
27 sir, it was referred to in the budget by Fleming a year  
28 ago.

29 THE CHAIRMAN: I suspect that the dividends  
30 were paid out of surplus and I would think the tax would



G37 1 have been paid.

2 MR. BELL: That is right.

3 THE CHAIRMAN: The extent of the tax benefit  
4 which arises from the hidden reserves would be the defer-  
5 ment of taxes on the reserves, in the same manner as a  
6 bad debt reserve in a commercial corporation.

7 MR. BELL: That is right. I don't find any  
8 fault with that at all. In the normal banking process,  
9 and other businesses dealing with accounts, when reserves  
10 are made for bad and doubtful debts, as a normal proce-  
11 dure, I understand that hidden reserves take that into  
12 account, or are in excess of that.

13 THE CHAIRMAN: I have always thought, and I  
14 have no personal experience in it, that they are probably  
15 in excess of what you speak of, because for commercial  
16 companies, accountants have drawn a bulletin which says  
17 that the reserve shall be related to the accounts then out-  
18 standing, outstanding in the period in which the reserve  
19 applied to those accounts.

20 The exceptions that are made to that would be  
21 for financial institutions, such as banks, where the  
22 reserve might be called cyclical because they have regard  
23 not only to the accounts then outstanding, but also  
24 accounts which are likely to appear in the future; if  
25 you like, an averaging of income. I would accept that  
26 readily as probably an advantage, but this advantage is  
27 not as to a lower tax rate; it is an advantage as to the  
28 deferment of tax payments until a little later on.

29 MR. BELL: The same could be said, of course, of  
30



G38 1 the life companies, ultimately in the distribution. must  
2 be some depletion of surplus, but I am not suggesting  
3 that there is not a case for hidden reserves, but I am  
4 wondering if they should not be reviewed and that maybe  
5 there is not now the same requirement for them and they  
6 have taken care of the cyclical - and, in fact, I would  
7 like to think in my own business I could have some  
8 reserve, hold my income for some future contingency.

9 THE CHAIRMAN: We will look at all the instances  
10 that you refer to. We have a pretty good research staff.

11 MR. BELL: You have resources we do not have.

12 THE CHAIRMAN: We will look it over.

13 COMMISSIONER GRANT: I was just going to make  
14 the observation - which I have no doubt is well-known to  
15 you - that my understanding is that these hidden reserves  
16 are set up and allowed to accumulate only with the  
17 express permission of the Deputy Minister of Finance and  
18 concurred in by the Minister of Finance and it isn't  
19 within the judgment of the bank concerned to set those  
20 reserves up.

21 MR. BELL: I am sure you are right. The little  
22 bit of resources I have tried to use on this kind of  
23 thing all comes to a dead end. Maybe there should be  
24 more revelation of these so that there couldn't be the  
25 likes of me trying to encroach on somebody else's money  
26 but after such observation as one can make and a little  
27 bit of bookkeeping, where 6% presumably would be on  
28 loans, a measure of new loans - all I can take was the  
29 bank statement, only one bank that seemed to be under-  
30 loaned in that respect, and apply 6% against it, and it



G39 1 seemed to be about \$80 million. As I say, that is an  
2 assumption. I don't have the resources or research.  
3 I think I am reasonably right about the life companies.

4 COMMISSIONER WALLS: In regard to the life  
5 companies, Mr. Bell, are you not overlooking the fact  
6 that 2% of premiums is paid to the provinces?

7 MR. BELL: In provincial taxes, no, I am not.  
8 I recognize that they pay a tax on premiums but the  
9 fact is, sir, that still an examination of the tremendous  
10 increment that has taken place in all these companies -  
11 maybe they have the greatest management in the world. I  
12 will give them that; they are better than all the rest,  
13 but it seems that they have got a little more going for  
14 them than seems to be the case in most other businesses  
15 or how could they make these tremendous increments?

16 THE CHAIRMAN: There is no question but we  
17 have got to look at the tax paid by most of the elements  
18 in our society; not just the companies that you referred  
19 to. Certainly the ones that you referred to will come  
20 under our review before we are through.

21 MR. BELL: I think co-operatives are in exactly  
22 the same category. I have got nothing against co-opera-  
23 tives. I think they render a great deal but to the  
24 extent that they talk about discounts and patronage divi-  
25 dends, and all that sort of thing, that is fine. If, on  
26 the other hand, after a period of time they obviously  
27 have a tremendous increase, then they have done that at  
28 the express - in the express area of withheld income.  
29 There is no other place for it.

30 THE CHAIRMAN: I certainly think it is our job



G40 1 to do our best to see that all citizens of Canada bear  
2 a fair, or as close to a fair, share as is possible of  
3 the tax burden of the country and this can only be done  
4 by looking at all the matters you suggest.

5 MR. BELL: That is the only reason I am here,  
6 sir.

7 THE CHAIRMAN: We are very grateful to you,  
8 indeed. Thank you very much, Mr. Bell. We have all too  
9 few citizens appearing as individuals, as you are, and  
10 we are particularly appreciative about it. Thank you  
11 very much.

12 MR. BELL: I have complained for many years. I  
13 thought I had better get up and say my piece.

14 THE CHAIRMAN: Yes, Mr. Secretary?

15 THE SECRETARY: There are two briefs to enter  
16 into the record. One, a brief from Mr. C. Beadnall of  
17 Duncan, British Columbia, which will be Exhibit No. 136.

18  
19 --- EXHIBIT NO. 136: Submission of Mr. C. Beadnall.

20  
21 THE SECRETARY: And a brief from Mr. Norman L.  
22 Hicks, Sidney, B.C., which will be Exhibit No. 137.

23  
24 --- EXHIBIT NO. 137: Submission of Mr. Norman L. Hicks.

25  
26 THE CHAIRMAN: We will stand over until tomorrow  
27 morning at 9.30.

28  
29 --- Adjournment  
30













